HOUSE OF COMMONS
CANADA

SECURING OUR FUTURE

REPORT OF THE STANDING COMMITTEE ON FINANCE

Maurizio Bevilacqua
Chairman
Standing Committee on Finance
November 2001

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COMMITTEE MANDATE

Standing Order 83.1

Each year the Standing Committee on Finance shall be authorized to consider and make reports upon proposals regarding the budgetary policy of the government. Any report or reports thereon may be made no later than the tenth sitting day before the last normal sitting day in December, as set forth in Standing Order 28(2).

THE STANDING COMMITTEE ON FINANCE

has the honour to present its

TENTH REPORT

In accordance with its mandate under Standing Order 83.1, your Committee has studied proposals on the budgetary policy of the government and has agreed to report the following:

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CHAIRMAN'S FOREWORD

The Committee travelled across Canada and heard from individuals and groups representing all regions and sectors of our society. They sent a strong message about the nation's budgetary priorities. There is no question that they strongly endorse spending for a national security package to deal effectively with concerns that affect our individual and collective safety, in addition to our economic well-being. We also heard a loud and clear message that the federal government must not return to a deficit position. Canadians also demanded that the government honour its commitments to the $100 billion tax reduction plan and the $23 billion in transfers to the provinces for health care. As in the past, participants endorsed the Committee's pro-growth strategy and investments in research and development. We have heard and interpreted their message and responded with recommendations that we believe effectively address their needs and concerns.

Canadians eagerly anticipated this round of consultations. They do not take the health of the economy for granted and in that context they wanted to tell us their priorities. They prepared their briefs during the summer as per the Committee's instructions, setting out their prescriptions for sound public policy.

Then came September 11. That this event changed our world is evident by looking at the economic consequences of the day and the days following, by witnessing the single-minded determination of the Canadian Parliament and by monitoring the media's focus of attention. The world had become riveted upon the events of that day and their aftermath.

This focus is perfectly legitimate and understandable. We must support initiatives undertaken to have justice done and to protect against further dangers. Moreover, these security threats also imperil our trade flows which are vital to our economic well-being. Investments must be made to deal with these important economic concerns, specifically as they relate to the Canada-United States border.

The ultimate goal of these consultations is to present a plan to help improve the standard of living and quality of life of Canadians, to deal with immediate concerns but also to ensure that conditions are set for future prosperity for this generation and future generations. Security is the immediate priority. We undertake this to help secure all of the other initiatives that bring future prosperity. Security has become a pre-condition for economic growth. It is a form of social capital that enables growth-oriented public policy to be effective. These policies include the attainment of a competitive tax system, with the $100 billion tax reduction plan and tax reform at its core. Growth also requires that the basic fundamentals of economic policy remain sound, that the government demonstrate fiscal leadership by avoiding deficits and by continuing to pursue debt reduction. Securing the social infrastructure of Canada through adequate funding and appropriate transparency and accountability mechanisms is also an important component, as is a commitment to making Canada an innovation and productivity driven economy.

Canadians have the ability to determine the type of society and economy they want. This is the ultimate definition of sovereignty. But to do so we must be prepared to face the reality of the challenges and choices confronting our economy and society.

Ultimately, we want to make sure that:

- Canada remains a major player in the global economy,
- All Canadians have an equal opportunity to succeed, and
- We create a socio-economic environment where Canadians can enjoy the best quality of life and standard of living.

As Chairman of the House of Commons Standing Committee on Finance, I would like to thank the many witnesses who took time to prepare briefs and appear before the Committee. The quality of their presentations reflects the seriousness with which they take this exercise.

At the same time, I would like to thank the Members of the Committee for their continued dedication to the Pre-Budget Consultations process.

Finally I would like to thank the staff of the Committee. It is only because of their work that this report could come to be. From Committees and Legislative Services, I would like to thank Marc Toupin and Mike MacPherson, clerks of the Committee. Manon Auger, Madeleine Bédard and Michel Quevillon should also be thanked as should the interpreters, sound technicians, and other House of Commons staff.

I would also like to thank the research staff provided by the Parliamentary Research Branch, Blayne Haggart and Marc-André Pigeon, assisted by Alexandre Laurin, Nathalie Pothier and Kristian Reid. A very special thanks to Marion G. Wrobel for his many years of exceptional contribution to the work of the Finance Committee and his outstanding service to Parliament. He is greatly appreciated and admired by all Members. As Mr. Wrobel leaves his post as Director of Research for the Committee to go to the private sector, we wish him the very best in all of his future endeavours.

Carole Fournier and Rocchina Petrozzi kept my offices running smoothly during this busy process through their tireless efforts. For this I am extremely grateful.

CARPE DIEM

Maurizio Bevilacqua, M.P.

INTRODUCTION

> *Let me assure you we will give a full accounting to Canadians. They deserve nothing less.* **Finance Minister Paul Martin**

In the aftermath of the tragedy of September 11 and in the midst of an economic slowdown, it seems difficult to believe that a year ago the economic picture was almost uniformly rosy and security issues were far from almost everyone's mind. The economy was enjoying its 22nd quarter of uninterrupted growth, inflation was tame, the Department of Finance was predicting a cumulative surplus of $43 billion through to 2004-05 even after the tax cuts and spending increases announced last fall,[1] and the unemployment rate had fallen to 6.8%, its lowest level since 1974. If anything, the main policy concern seemed to be how to keep the economy from overheating. As David Dodge noted recently, "Around this time last year, both the Canadian and U.S. economies were pushing against or through their capacity limits."[2]

These strong fundamentals demanded a policy shift from the spending cutbacks and tax increases of the mid-1990s to an emphasis on productivity and innovation, which in turn rested on tax cuts coupled with increased strategic spending on research, development, innovation and health care. This Committee was quick to seize on this new reality. In its 1999 pre-budgetary report *New Era…New Plan*, we wrote that the positive economic fundamentals of the previous three years were "no mere short-term anomalies" and that the goal going forward must be to "consolidate past achievements, further strengthen our economic performance, increase prospects for the future and hence help to secure what many Canadians view as the essential character of our economy and society."[3] The Committee also cautioned, however, that history shows "nothing should be taken for granted" and that considerable long-term challenges remained in terms of Canada's productivity performance and its competitive position.

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1 This figure reflects all measures up to and including the 2000 Economic Statement and Budget Update.

2 "Remarks by David Dodge, Governor of the Bank of Canada, on Current Developments in the Canadian Economy." Bank of Canada, 21 September 2001. http://www.bankofcanada.ca/en/speeches/sp01-7.htm

3 House of Commons, Standing Committee on Finance, First Report, *Budget 2000: New Era…New Plan*, 2nd session, 36th Parliament, December 2001.

The Rationale for a December Budget

We're very pleased that the minister announced that the government intends to table a budget before the end of the year. **Nancy Hughes Anthony, President and Chief Executive Officer, Canadian Chamber of Commerce**

One of the things business hates the most is uncertainty. Certainly I think one of the kudos I would give to our central bank is that, if anything, they are consistent and very certain. **Michael Atkinson, President, Canadian Construction Association**

The September 11 terrorist attacks ushered in a new economic context and therefore a new set of priorities, showing just how appropriate earlier notes of caution were. The attacks and their aftermath demand a response to quell the uncertainty that makes long-range business planning difficult.

They have also made an already weakening economic situation worse, temporarily shutting down production facilities, threatening the viability of airlines at home and abroad, requiring new military and security expenditures, and slowing shipments of goods across the border.

The budget is the main economic event in Canada. It is the tool by which the government signals to Canadians its plans and priorities. This in turns helps consumers and businesses plan for the coming year. Even before September 11, Canadians were becoming concerned about the state of the economy, and the terrorist attacks on the U.S. only exacerbated these concerns.

In light of the current uncertainty all Canadians are facing, the Committee welcomes the Finance Minister's October 24 announcement that he will present a budget in December. Echoing the voices of other Canadians, we believe that a December budget is instrumental to maintaining confidence in the economy.

The events of September 11 and its aftermath cannot be allowed to cloud or obscure this committee's long-standing, long-term policy objectives, nor should it weaken our resolve to maintain and bring about the conditions required to make those goals a reality. This Committee believes that increased security and military expenditures in the short term are necessary to reduce uncertainty and to create the conditions for the broader, longer term objectives of strong productivity growth and higher standards of living. National security is a public good. It constitutes a form of social capital that is an important input into the national economy. While this has always been the case, it is increasingly so today as real and perceived terrorist threats are having a significant impact on the day-to-day operation of the economy as well as business and consumer confidence.

Assuring this future also means maintaining our commitment to the $100 billion tax reduction plan and $23.4 billion in increased health care spending announced last year, all the while maintaining our fiscal integrity and discipline by avoiding a deficit — the same fiscal discipline that helped Canada weather the 1997-98 Asian financial crisis and which will help us weather this crisis as well. That is the challenge facing Canadians and their government and which this Committee, in this pre-budgetary report, will tackle.

Every effort must be made to avoid a deficit in this fiscal year and the next one.

Vancouver Board of Trade

> *There are those who say that to counter the slowdown now we should cut taxes more or that we should spend more. In other words, that we should take the chance of going back into deficit. Well, that we will not do. We will not put at risk all that Canadians have worked so hard to achieve over the past few years. Rather, we will maintain the approach that has seen us through the peso crisis of 1994 and the Asian crisis of 1997, and which will see us through the current slowdown.* **Finance Minister Paul Martin, Economic Update**

> *We're now in the position where we can let the automatic stabilizers work … . I think that what is critical is that the government makes those expenditures that will help us with long-term problems.* **David Dodge, Governor, Bank of Canada**

> *I think you should be cautioned against postponing future tax cuts simply because you see the economy weakening … . I think you should at least stay the course with your five-year tax reduction plan. Indeed, economic weakness is a justification for bringing forward future tax cuts that might be planned anyway.* **Thomas Wilson, Director, Policy and Economics Analysis Program, University of Toronto**

> *Setting priorities for this budget cycle is a Herculean task indeed, but the immediate challenges should not inhibit the government's ability to set out longer-term priorities for the economy.* **Elyse Allan, President and Chief Executive Officer, Toronto Board of Trade**

> *Now is not the time to contemplate new multi-year spending. We believe that to do so would put tax cuts and debt reductions at risk.* **Pierre Brunet, Vice-Chair, Board of Directors, Canadian Institute of Chartered Accountants**

The Art of Forecasting

The rate of economic growth (measured as monthly changes from the year previous) started to decline in the middle of last year to levels that are generally considered more sustainable. The fall in growth rates continued throughout this year, to levels below capacity growth, and was presaged to some extent by the index of leading indicators, a barometer of where the economy may be headed.

The Leading Indicator Explained

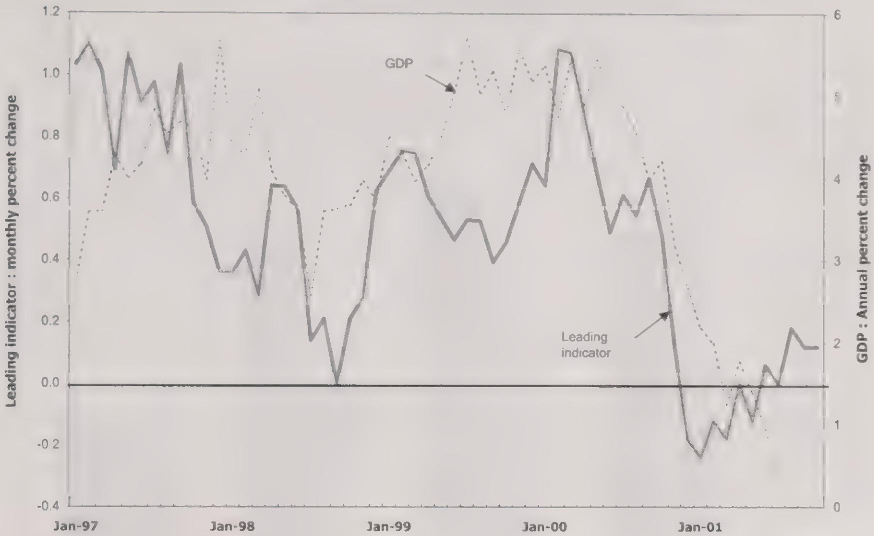
By some accounts, economists and statisticians have been constructing leading indicators since at least the 1920s. This is not altogether surprising given the cyclical nature of market economies fl people have always wanted to know whether the economy was on the cusp of recession or a period of sustained growth. Leading indicators are generally built to answer that question and predict the general direction of economic growth over the course of the next three to six months. In other words, they are best viewed as predicting "turning points" between growth and recession or vice-versa rather than the "absolute value" of GDP six months down the road.

There are many kinds of leading indicators, although most versions represent "composites" or amalgamations of various data series that are most sensitive to the economic cycle. Statistics Canada's leading indicator is a composite of ten such series, including furniture and appliances sales, sales of "other" consumer durables, money supply growth, changes in the Toronto Stock Exchange 300 Index, new orders for consumer durables, shipments-to-inventories ratio, the work week in hours, personal services employment, house spending, and an index of the U.S. economy.

Chart 1, which juxtaposes year-over-year changes in Gross Domestic Product (GDP) with monthly changes in the leading indicator, shows that the leading indicator turned down sharply in the late summer of 2000. The leading indicator, while negative for most of 2001, has most recently levelled off and showed some signs of improvement, suggesting the economy could begin to recover sometime next spring, as most forecasters now seem to expect. A note of caution however: the data for September do not reflect the full effects of the September 11 attack, suggesting the indicator could reverse some of its recent gains when the next round of data are released in late November. At the time of writing, real GDP growth in August from July was a faint 0.1%.

The leading indicator, however, is only a barometer of the economy's direction or the general trend. It does not lend itself to easy quantification, an essential component of the budget-making process. The Department of Finance instead relies on a number of economic forecasts by private-sector economists. However, forecasting is fraught with problems and is an imprecise art at the best of times. At any given moment there is conflicting evidence as to the overall

Chart 1: The Leading Indicator



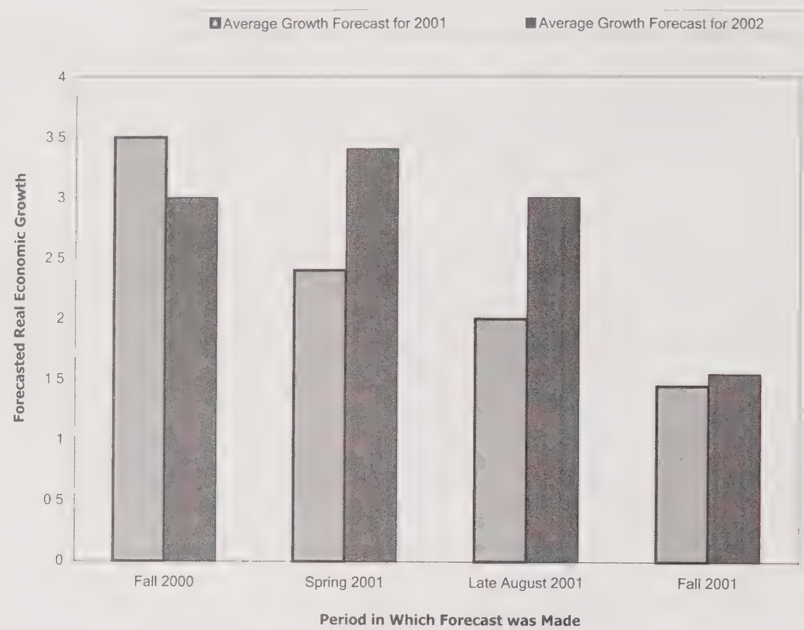
direction of the economy, with some forecasters choosing to highlight the negatives and some the positives. In an environment of heightened uncertainty, forecasting becomes even more difficult.

Last fall, the average forecast for economic growth for 2001 was 3.5%, notwithstanding the abrupt drop in the leading indicator. By May 2001, however, the average forecast was revised down to 2.4% after a spate of bad economic news. By late August, the average forecast had fallen to around 2%, again on the heels of more bad news.

With the events of September 11, the art of economic forecasting more than ever approximates something closer to guesswork than informed analysis, and forecasters have again revised down their forecasts, with the average now at less than 1.5%, or more than 35 basis points (i.e., 0.35 percentage points) below the "lower growth scenario" of 1.8% used by the Department of Finance in its May Economic Update and well below estimates of Canada's potential growth rate of 3% a year.[4] Chart 2 shows the evolution of private-sector forecasts since September 2000. It is interesting to note that initially, forecasts became more pessimistic for 2001 but remained optimistic for 2002, indicating a quick rebound in economic activity. Recent forecasts are qualitatively different as they suggest lower growth for both years.

4 The Bank of Canada has estimated that given population and productivity growth the Canadian economy can "safely" grow between 2.75% and 3.25%, with 3% representing the midpoint of this estimate.

Chart 2: The Evolution of Growth Forecasts for 2001 and 2002



Despite the short-term gloom, most forecasters remain optimistic that economic growth will be robust by the second half of 2002 as tax cuts, lower interest rates and increased government and consumer spending take hold. Since the beginning of the year, short-term interest rates have been reduced by 450 basis points in the United States and by 300 basis points in Canada. The effects of monetary actions are well known to operate with a lag that can vary from instance to instance. The effects of these cuts should be evident in late 2002 and 2003, when growth is expected to reach 3.3%, slightly above the Bank of Canada's calculation of non-inflationary capacity. In 2002, the average forecast has fallen dramatically to 1.64% from 3.4% in May.[5]

> *...it is clear that providing security will add greatly to the government's expenditures, while the drag on economic activity caused by the attacks will reduce the revenues that Ottawa might otherwise have anticipated.*
>
> **Canadian Manufacturers and Exporters**

A recently released fiscal outlook published by TD Economics[6] provides a cautionary note in predicting that the state of the economy will drive the government sector (i.e., the combined federal and provincial budgets) into a planning deficit — i.e., a deficit before contingency and economic prudence — by 2002-03. Similarly, Patrick Grady, an Ottawa-based economic consultant and former senior official at the Department of Finance, forecasts that even before the recently announced security and airline measures, the government will post a surplus of $3.2 billion, which translates into a planning

5 The figure would be closer to 1.84% if not for an "outlier" prediction by the Bank of Nova Scotia, which expects economic growth of 0.6% in 2002.

6 TD Economics, *Report on Canadian Government Finances*, "Federal and Provincial Fiscal Outlook to 2005-06," October 12, 2001. The TD Economics projections represent the status quo and are based solely on economic factors. It includes government tax and spending initiatives mentioned in past budgets and economic statements. No discretionary changes are assumed, although the impact of lower growth on revenues and non-discretionary spending is taken into account. It does not include recently announced security measures.

deficit of $0.8 billion for 2002-03.[7] These projected planning deficits demonstrate the fragility of the fiscal position of the government sector in Canada and its ability to forge ahead with aggressive debt reduction.

Whether or not the federal government runs deficits in the future will depend upon its assessment of short-term security needs and the amounts to be spent and its ability to find savings elsewhere in the event that security needs grow substantially. New spending measures extending to fiscal year 2003-04, however, will threaten continued debt reduction.

The TD Economics status quo projections see all government program spending increasing by 4% per year until 2005-06. For the federal government, this represents a $28 billion increase in program spending from 2000-01 figures, based on existing, non-security related commitments.

Finally, it is also worth noting that since 1992, the Canadian economy has grown at an annual rate of 3.3%. Forecasters therefore seem to be expecting Canada to resume "trend growth" by 2003 and that the current slowdown is only a temporary and possibly relatively benign — from a longer-term economic perspective — setback.

However, it must be stressed that these medium and longer-range forecasts, especially during times of great uncertainty, should be viewed with caution. For example, Merrill Lynch Canada told its clients in late September to "beware of the mantra that the recession will necessarily be "mild and mellow" or "short and shallow,"a view that has persisted in some quarters despite the September 11 attacks. The investment firm goes on to note that "this is almost always the view from the economics community heading into the contractions. Yet, recessions have on average been almost a full year in duration, during which real GDP shrank 2% from peak-to-trough, and the unemployment rate rose 3.5%. Fully three-quarters of the time, the recession lasted ten months or more."

These changing economic growth forecasts are also important because they can give us a sense of the long-term prospects of the economy. For example, if the economy grew at its potential rate of 3%, output would double every 23 years instead of the 46 years it would take if growth averaged 1.5%, the average forecast for growth in 2001.

The Consequences of the Terrorist Attack on the Economy

The terrorist attacks exposed some of the assumptions that supported even the most pessimistic pre-September 11 forecasts. For example, there is no way of knowing how much the battle against terrorism will cost because of uncertainty about the intensity and duration of the conflict.

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[7] Patrick Grady, *The Case for a Fiscal Deficit After September 11*, Submission to the Standing Committee on Finance, November 2001. The government planned to set aside $3 billion for its contingency reserve, which is used to pay down the debt if not needed, and $1 billion for economic prudence in case of unforeseen economic disruptions. The planning surplus represents funds over and above these amounts.

While it is impossible at this time to know with any precision the extent of the loss to the Canadian economy as a result of the events of September 11, it is clear that the figure is in the billions of dollars. The recession that was already evident in Canada's manufacturing and exporting sectors during the past summer will be deeper and more prolonged than originally expected.

Canadian Manufacturers and Exporters

The Canada-U.S. border is a prime example of the effect of this uncertainty. While it is difficult to get a precise measure of the economic impact of slower border crossing, it is worth noting that even though the border was closed for only 20 minutes on September 11, several Canadian auto plants were forced to shut down for the afternoon, resulting in lost production for the company and lost wages for the workers. In its November *Monetary Policy Report*, the Bank of Canada estimated that the repercussions (on transportation, finance, tourism) of September 11 reduced third-quarter growth, measured at an annual rate, by about 1 percentage point. This means that the economy either stagnated (zero growth) or shrank by 1% in the third quarter: "While the fourth-quarter impact of the attacks on growth is more difficult to assess, it seems likely to be at least as large as the direct effects in the third quarter, suggesting that growth in GDP in the fourth quarter will be near zero."[8] Perhaps the most worrying impact of September 11, however, is uncertainty about the duration of border delays. As several witnesses remarked, businesses may be reluctant to invest in Canada if border delays fluctuate unpredictably whenever there's a security threat to the United States.

> *I think it's wrong to think of this as being a short-run problem involving trucks being held up at the border, and that this is going to go away. Once an investor has seen that kind of shock, that investor is going to think many times about building a plant in Canada if access to the United States' market is in doubt in the future … . What this means is that the border security issue is absolutely critical to the level of productivity in Canada and the rate of productivity growth.* **David Laidler, Professor, Department of Economics, University of Western Ontario**

Although Canada Customs and Revenue Agency (CCRA) data suggest that cross-border traffic delays are back to normal, there is always the possibility that further terrorist attacks could lead to another round of tighter security and more permanent delays or that political sentiments in the United States could lead to stricter border security whether needed or not. Even a temporary increase in the delays — such as in the aftermath of the September 11 attack — can impose large costs. For example, the Conference Board said in a recent report that it is "not unreasonable to assume a 1% decline (at annual rates) in exports in the third quarter because of border delays, which would take roughly 0.4% out of real GDP in the quarter …."[9]

Airline Industry

The terrorist attacks have had other very obvious impacts on particular sectors of the economy. The Canadian airline industry, which accounts for

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8 Bank of Canada, *Monetary Policy Update*, November 2001, p. 12. http://www.bankofcanada.ca/en/pdf/ mprnov01.pdf.

9 Implications of the Terrorist Attack for the Canadian Economy: Special Report," *Conference Board*, September 19, 2001.

about $4 billion of real GDP and which was already in a precarious position, has seen air traffic fall off by between 20% and 30% since flights resumed on September 15. The Conference Board estimates the attack will reduce the airline industry's real output by $500 million (at annual rates) during the third quarter. While this represents less than 1% of the economy's total output, it is nevertheless a very serious blow to an industry that was already suffering from over-capacity.[10] Additionally, there is no question that related industries, such as tourism, have also been affected.

The economic impact of a collapse of the airline industry is difficult to quantify, but there is little doubt that modern economies rely heavily on deliveries of goods and people via airlines. In the aftermath of September 11, for example, a number of manufacturers were forced to shut down production because the cancellation of air traffic stranded needed parts and people.[11] Airplane manufacturers have not been immune from the slowdown or repercussions of September 11 either. In response to the fall-off in airline travel, Boeing recently announced the layoff of a third of its employees at its Arnprior, Ontario plant as part of broader move to lay off of 20,000 to 30,000 employees by the end of 2002.

> *The tragic events of September 11 have changed the world in which we live and work, especially for people in the airline and aerospace industries. The airline industry was already struggling as a result of the downturn in the US economy and according to our estimates, these attacks will result in significant job losses in this and in other related sectors such as major equipment and engine supplies, etc.* **Gilles Ouimet, President, Pratt & Whitney Canada**

> *In the long term, I think it's terribly important that we focus on innovative solutions to sustain aviation as a safe and secure mode of transport … . We need to maintain public confidence. Therefore, we must ensure that the aerospace research and development link is not broken by these tragic events.* **Peter Smith, President and Chief Executive Officer, Aerospace Industries Association of Canada**

In response, the government has offered a $160 million aid package to the airline industry, and a conditional $75 million loan guarantee to Canada 3000.[12]

10 Ibid.

11 According to the *Canadian Economic Observer*, October 2001, p. 1.10, "nearly 40% of U.S. exports are sent by air cargo, notably high-tech goods."

12 Canada 3000 was unable to make use of the loan guarantee. It has recently filed for bankruptcy.

Nevertheless, what is bad for one sector may prove to be an opportunity for another. Short-length travel by air is being replaced by bus, car and train travel. While airlines are facing severe financial difficulties and some are facing insolvency, this does not suggest that airplanes will not fly and that airline service will not exist. Rather it means that restructuring will take place and that investors will experience the consequences of the risk that they have chosen to take by investing in airlines.

Economics Professor David Laidler made the point that the economic effects of September 11 largely represent real shocks to the economy, not a general deficit in aggregate demand. If the airline industry now possesses excess capacity because demand has shifted away from airline travel, resources should be allowed to move to other sectors. It would be a mistake, in his view, to try to prevent these adjustments from happening via demand side stimulus, or any other kind of short-term aid.

Consumer Confidence

> *People tend to sit and wait … . What will trigger them to get moving again is very hard to say.* **David Dodge**

Even before the attack, there were signs that consumer confidence — which until recently had been remarkably resilient — was waning, as can be seen in Chart 3, which depicts the Conference Board of Canada's consumer confidence index. In the U.S., the picture is even bleaker. Even before September 11, U.S. consumer confidence had fallen to an eight and a half year low. Since then, consumer confidence has risen slightly. Consumer confidence is an important indicator of the short-term outlook for the economy because it indicates the extent to which consumers are willing to spend.

Since September 11, consumer confidence has fallen even further. The Conference Board, for example, reported in its most recent survey that its Index of Consumer Confidence declined by 17 percentage points to its lowest level since 1996.[13] The questions for governments are: what is the appropriate response to this? Will consumer and business confidence be strengthened by fiscal measures that return us to a deficit in order to try to stimulate the economy or to assist ailing sectors of the economy? As Professor Laidler reminded the Committee, "Canada's benign policy framework even now has been in place for only six years, and credibly so for a shorter period."[14] Or will confidence be restored by measures that show a resolve to effectively deal with the terrorist threat?

In order to assess the policy options facing the federal government, it is useful to consider three aspects to the current economic situation. The first is a decline in aggregate demand due to the prior economic slowdown and a more recent deterioration in consumer confidence. This drop is an aggregate demand

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13 These data are not reflected in Figure 3, which contains survey data from the week of September 11 and the week before. The Conference Board decided to update its survey because it felt these data did not accurately reflect the full impact of September 11.

14 David Laidler, "Notes for the Standing Committee on Finance," August 1, 2001, p. 3.

Chart 3: The Conference Board's Index of Consumer Attitudes (1991 = 100)

shock that has been largely addressed by an unprecedented monetary stimulus and the tax cuts announced last fall in the government's Economic Statement and Budget Update. The second is a sectoral shift in net demand. With North Americans avoiding travel in general and air travel in particular, certain sectors of the economy are facing significant, short-term excess supply problems that have led to capacity reductions, layoffs, and even the threat of insolvency for a number of firms. No amount of aggregate stimulus can alter this shift in consumer preferences, nor should the government try, since the industry should be able to solve the problem on its own. In the U.S. for example, the airline industry is taking measures to address the problem by dramatically lowering some fares. The third aspect is a reduction in productivity as security concerns transform the Canadian-American border from a nuisance to a serious barrier to Canadian prosperity.

Appropriate and effective national security initiatives can have a positive impact on all three aspects mentioned above. They can restore broad consumer and business confidence, they can restore faith in traveling, and they can restore the border to being nothing more than a nuisance. All of this will happen not because the government spends large amounts of money on security or spends so much as to go back into deficit. It will happen if government implements a security strategy that is convincing and effective.

There is a further danger, repeatedly highlighted by the U.S. Federal Reserve, that the terrorist attack's economic effects would manifest themselves through the wealth effect: "Negative wealth effects from falling stock market prices, declining payrolls, and sluggish income gains — should they persist —

might well depress consumer expenditures over coming months."[15] In Canada, most studies suggest the wealth effect is less pronounced than in the United States.[16] The Royal Bank calculates the Canadian wealth effect at about 2 cents per dollar of wealth gained or lost compared with 4.4 cents in the United States. The IMF estimated that a 35% drop in equity prices could reduce consumption by $5 to $10 billion, or 0.5% to 1% of GDP in the long term.[17]

A final danger from the consumer's vantage point is the high levels of consumer debt and the low household savings rate. Consumer credit is at 70% of GDP and savings rates are at the lowest level since Statistics Canada started tracking this variable in 1961. This is offset by the fact that, despite high debt levels, debt servicing costs are now at historical lows due to low interest rates. Nevertheless, some consumers are being cautious because of their vulnerable employment status.

On the other hand, total savings of the economy, the primary source of investment capital, are in better shape, reflecting the sharp turnaround of government finances in the last third of the 1990s. However, with the possibility of reduced surpluses and further short-term consumer indebtedness because of the economic slowdown, total savings could begin to fall.

> *What we're looking at now is a kind of demand weakness arising from perhaps over-investment and consumers getting overstretched in the United States.*
> **Thomas Wilson, Director, Policy and Economic Analysis Program, University of Toronto**

A Synchronized Global Economic Cycle

Perhaps one of the biggest dangers of this slowdown is the fact that, unlike the Mexican peso crisis or the Asian financial crisis, the current economic slowdown is affecting all the major economies of the world at the same time and this synchronized cycle was only made worse by the terrorist attack of September 11. As Kenneth Rogoff, the International Monetary Fund's Economic Counsellor and Director of the Research Department said in a recent press conference, "this synchronized slowdown has reflected stronger than expected global linkages."[18] There is a danger then that the slower growth that began in the United States and spread to Canada, Europe and Southeast Asia could be exasperated as slower growth elsewhere works its way back to the

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15 United States, Federal Reserve Board, "Minutes of the Federal Open Market Committee," 21 August 2001. http://www.federalreserve.gov/fomc/minutes/20010821.htm.

16 The Federal Reserve said its decision to reduce interest rates by 50 basis points on April 18 was based in part on this concern. This was a startling statement since consumption, which represents roughly 58% of all economic activity in Canada, usually holds up well during all but the most prolonged downturns. Only the recessions in 1981 and 1990 saw significant weakness in consumption. "In fact, in numerous instances, consumer spending accelerates after a mild downturn begins." See Philip Cross, "Expenditure on GDP and Business Cycles," *Canadian Economic Observer*, March 2001, p. 3.15.

17 This calculation appears to be in line with work done by the Bank of Canada.

18 Kenneth Rogoff, Press Conference, International Monetary Fund, Washington, D.C., 26 September 2001, http://www.imf.org/external/np/tr/2001/tr010926.htm.

Chart 4: Saving Rate

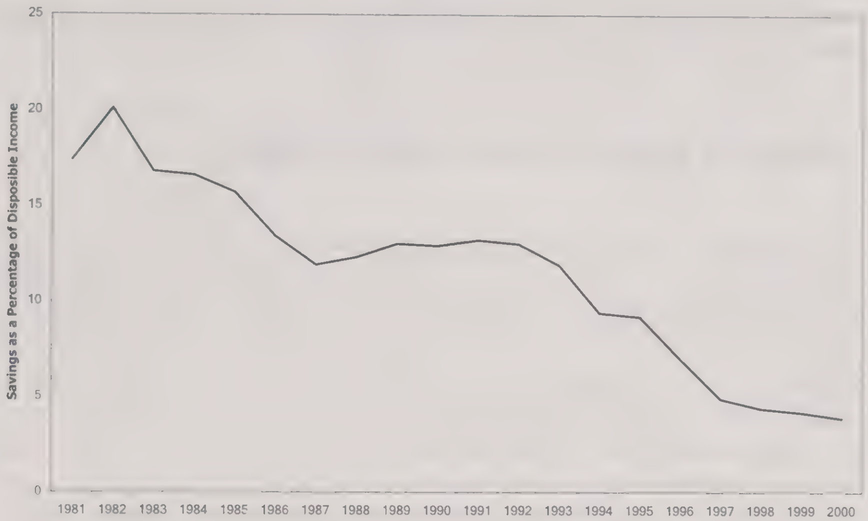
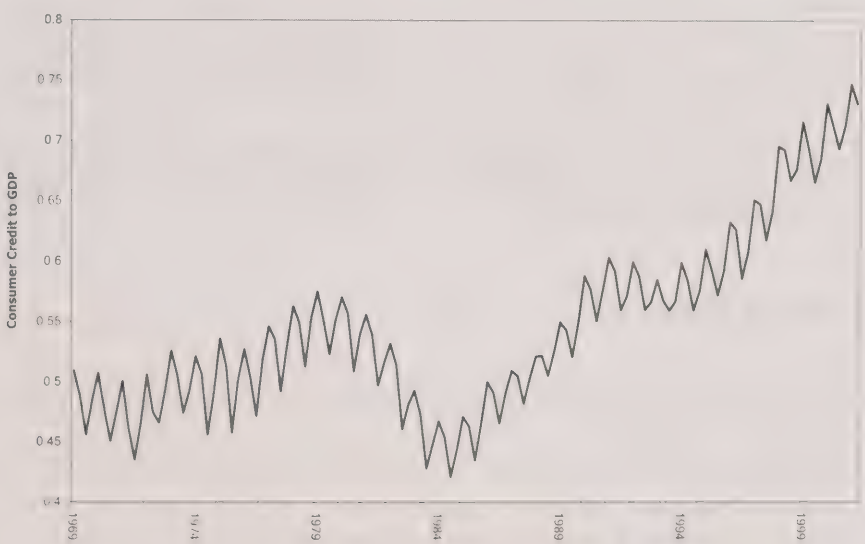


Chart 5: Ratio of Consumer Credit to GDP



United States. Even before September 11, the IMF had reduced its projection for 2001 growth by more than 0.5 percentage points to 2.6%, with a similar reduction for the 2002 projections to about 3.5%. The IMF does not expect the events of September 11 to alter fundamentally its 2001 projections although it does expect 2002 growth to come in somewhat less than expected.

Monetary Policy and the Financial Sector

Counterbalancing these economic negatives, however, are the stimulative effects of monetary and fiscal policy. Since the attack, the U.S. Federal Reserve has cut its overnight interest rate by 150 basis points. The Bank of Canada meanwhile has reduced its overnight benchmark rate by 125 basis points since September 11. This aggressive stance suggests the Bank has grown increasingly concerned about the near-term outlook for the economy. Chart 6 shows that the overnight interest rate, which sets the tone for other interest rates such as mortgage and general loan rates, has been reduced by 300 basis points since the beginning of the year. It is generally assumed that the stimulus effect on investment and consumption from lower interest rates can take as long as 18 to 24 months to make itself fully felt.

While monetary policy is playing an important role in stimulating the economy, there is a danger that the slowdown could lead to credit-rationing by the commercial banks, as fewer and fewer firms meet normal loan criteria. In its November *Monetary Policy Report*, the Bank of Canada said this is already happening at least in part because of heightened uncertainty about the economic outlook. "In the bond market, this tightening has been reflected in the increase in spreads between the interest rates on corporate debt and those on government debt. Moreover, whereas earlier in the year, only a few sectors, such as telecommunications and automotive manufacturing, had been affected, more industries are now feeling the effects of the tighter credit conditions." The Bank goes on to note that there has been a corresponding increase in the demand for credit as firms seek to hold greater cash balances in the face of heightened uncertainty about the future.

Fiscal Policy

On the fiscal side, the U.S. government has announced a series of spending initiatives — coupled with tax measures passed earlier this year — that in total are expected to amount to about 1% of U.S. GDP. This stimulus will benefit Canada to the extent that it succeeds in restoring U.S. consumer confidence and leads to an increased demand for Canadian exports. The first tranche of this stimulus package came in the form of income tax rebates worth $38 billion mailed out in July. The rebate was part of a larger tax cut, spanning ten years and totalling over US $1.2 trillion.

The Committee wishes to point out that Canada has already provided a strong degree of fiscal stimulus in 2000, equivalent to more than 2% of GDP.

Chart 6: The Evolution of the Bank of Canada's Overnight Interest Rate Target

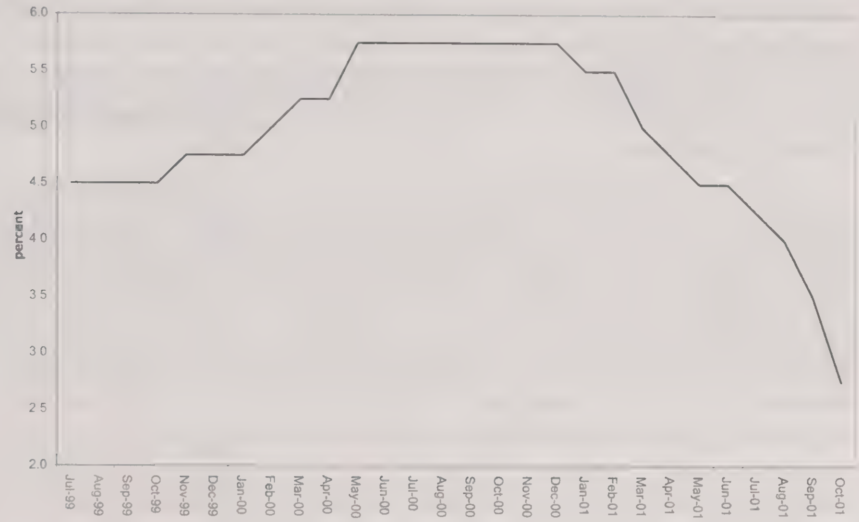
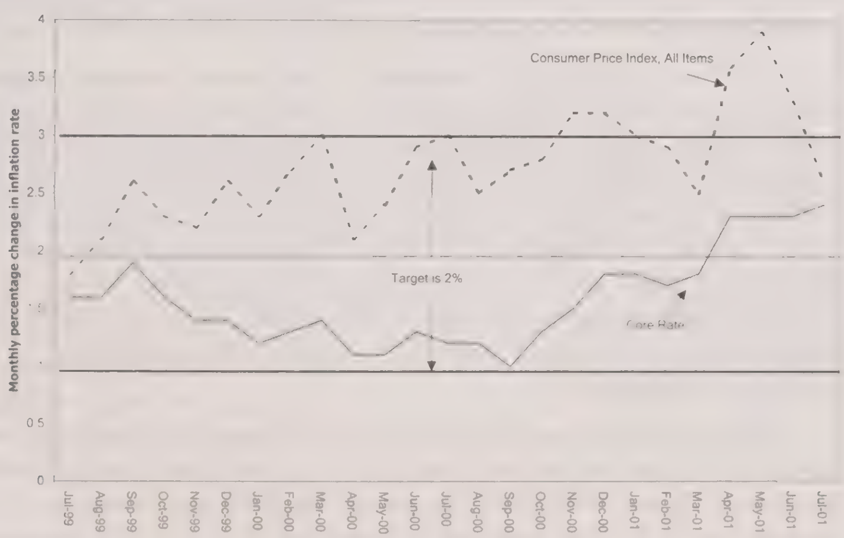


Chart 7: The Evolution of Inflation Rates (Total CPI and Core CPI) Relative to the Bank's 2% Target



In the United States, immediately after the attack, legislation was passed giving the government the authority to spend a further $40 billion to assist areas directly affected by the attack, fight terrorism and increase various forms of security including that of the transportation sector. Later in September, the U.S. announced a $5 billion package to assist its airlines and another $10 billion in loan guarantees. Early in October, U.S. Treasury Secretary Paul O'Neill told the U.S. Finance Committee that his department was drafting plans to spend another $60 to $75 billion in 2002, again to stimulate the economy and restore consumer confidence.

While it is difficult to say how much of an overall stimulus effect these expenditures will have, they will undoubtedly have some beneficial impact for those sectors directly targeted, namely the airlines industries, building materials sector and the security sector (e.g., firms that provide security services such as security guards, alarms and other security devices). It is important to stress, however, that the money to finance these spending increases must come from somewhere. In other words, the $40 billion injection into the building trades and security sector means there is $40 billion less for debt reduction, tax cuts or other spending increases. The net effect of the additional spending and tax cuts depends very much then on how the money could have been otherwise used.

Similarly, additional military spending by the U.S. to finance its war on terrorism could provide a shot in the arm to the arms manufacturers in the U.S. and related industries, although again this kind of spending necessarily means foregoing some other combination of debt reduction, tax cuts or spending increases that reflected different spending priorities and may have been more productive. It is also important to note that military spending is qualitatively different from most other types of expenditure since the goods generated (tanks, aircraft, etc.) generally cannot be used for any other purpose, permanently consuming scarce resources and adding little to society's productive capacity.

Given the unprecedented magnitude of the recent monetary stimulus in Canada and the United States, there is a growing debate on both sides of the border about whether there is a need for an additional fiscal stimulus.[19] Government spending on security is not designed to provide fiscal stimulus. It is there to provide social capital. Professor Laidler told the Committee in his written submission that monetary stimulus is just starting to have an effect and the need for further stimulus on the fiscal side is not evident. Moreover, would new fiscal measures actually stimulate the economy, especially if they lead to a recurrence of deficits and tarnish the government's reputation for sound economic management?

According to Professor Laidler, "The single most important factor lending credibility to Canadian monetary policy in recent years has been the remarkable turnaround in the fiscal situation which the 1995 and subsequent budgets brought about. It is an elementary proposition that low inflation cannot be permanently sustained in the face of a perpetually rising debt to GDP ratio…when deficits disappear, low inflation becomes more credible, and that

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19 Milton Friedman, "No more stimulus needed — Big fiscal moves would be a big policy mistake," *National Post*, 11 October 2001, p. FP19.

leads to lower interest rates and a better real economic performance. In turn, these effects make the budget easier to handle, and a virtuous policy circle is set in motion." The downside risk of measures that might not be effective is then very high. Moreover, it should not be forgotten that the federal tax cuts of 2000 have already provided a fiscal stimulus equal to about 2% of GDP.

Long-Term Prospects: The Benefits of and Need for Sound Fundamentals

While it is important not to underestimate the impact of the economic slowdown and the consequences of September 11, it is also crucial to keep a long-term perspective. As the 1997-98 Asian financial crisis showed, strong fundamentals — balanced budgets, low inflation and correspondingly low interest rates, internationally competitive firms on the cutting edge of modern technology — bode well for a robust recovery.

> *Monetary policy is now firmly anchored to inflation targets that have proved to be attainable and sustainable, and thus credible.*
>
> **David Laidler**

Consumer Prices

In the first few months of 2001, the Consumer Price Index (CPI) — a gauge of the cost of a normal basket of consumer goods — grew almost 4%, well above the Bank of Canada's upper limit of 3%, as can be seen in Chart 7. The surge was driven mostly by higher energy prices. By early summer, however, energy prices had started to fall, pulling the CPI back below 3%. (In the shorter term, the Bank looks to trends in "core inflation," — CPI minus energy and food prices, and indirect taxes — which is not as volatile as total inflation. In the long term, however, it is total inflation that affects Canadians purchasing power and is the relevant variable for monetary control. The Bank is also now giving more prominence to the midpoint target of 2%, implicitly suggesting that 3% inflation is unacceptably high.)

Debt

Notwithstanding the slowdown in economic growth, the government continued to make important gains in reducing the country's debt burden as measured by the ratio of the federal government's net public debt (total debt minus the government's financial assets) to GDP, shown in Chart 8. The ratio stood at 51.8% at the end of fiscal 2000-01, down from a high of 70.7% in 1995-96. Similarly, debt servicing costs as a percent of GDP have fallen to 4% of GDP, their lowest level since 1980-81 in part because of lower overall debt levels, lower interest rates and stronger economic growth. In absolute terms, this translates into an ongoing saving of $2.5 billion each year in interest payments, money which can be used to finance tax cuts and pay for new initiatives and help the economy weather the current economic storm. In fiscal 2000-01, debt-servicing charges ate up $43.1 billion, or 23.5% of the government's total revenue, down from $41.65 billion, or 25% of total revenue, in 1999-2000.

> *The federal government has demonstrated strong leadership in the area of debt reduction, retiring more then $33 billion of federal debt in the past four years, — $27 billion of this the last two years alone.*
>
> **Insurance Bureau of Canada**

Chart 8: Net Public Debt and Charges (as a percent of GDP)

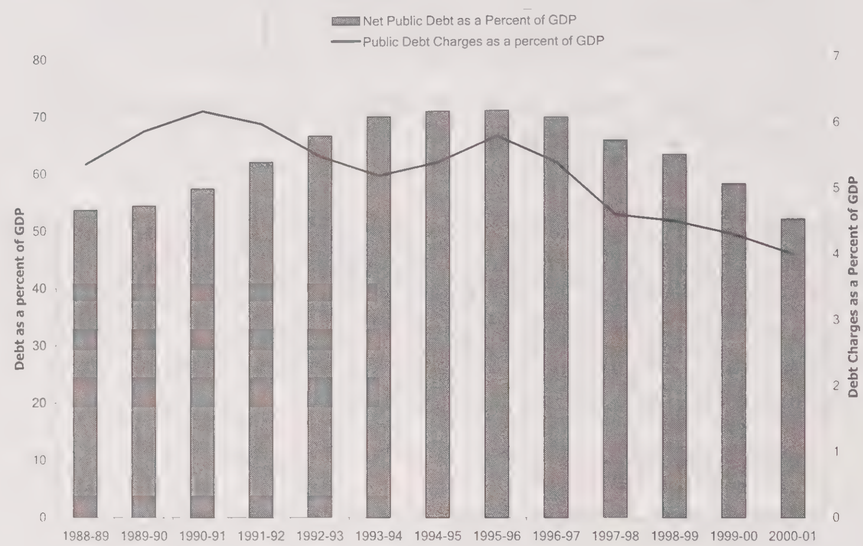
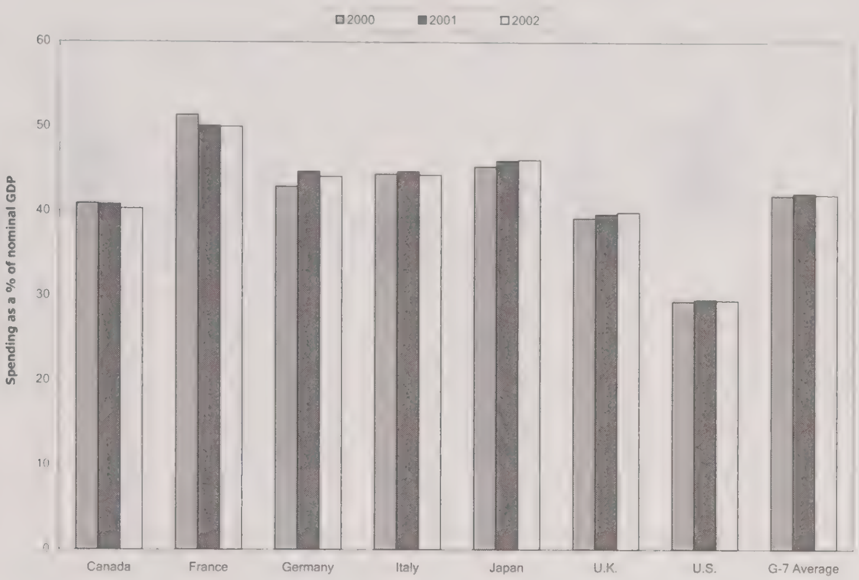


Chart 9: Canada's Budget Balance Since the 1969-1970 Surplus

Chart 10: Government Spending as a Percentage of GDP in G-7 Nations



Budget Balance

In 1997-98, the federal government recorded a surplus of $3.5 billion, its first since 1969-70. This was followed by surpluses of $2.9 billion in 1998-99, $12.3 billion in 1999-2000 and $17.1 billion in 2000-01.[20] Chart 9 shows how the government's budget balance has evolved during the last 30 years.

Charts 10 and 11 show how Canada has fared compared to other G-7 nations. Much of the turnaround from chronic deficits to healthy surpluses occurred because of deep spending cuts in the mid-1990s. For example, total spending (including debt servicing costs) in 2000-01 of $119.4 billion was 2.6% lower than the $122.6 billion spent seven-years earlier in 1992-93. Most of the cutbacks, however, occurred in program spending. The ratio of program spending to GDP fell to 11.3% in 2000-01, its lowest point since just after World War II.

Indeed, much of the longer-term optimism expressed by most forecasters rests on the belief that these fundamentals are still largely in place. Stimulus from lower interest rates and tax cuts, sustained consumer spending, and a stronger U.S. economy are expected to have their desired effect by the middle of the next year. Forecasters also point out that many of the factors that

IBAC commends the federal government for its conviction and performance in soundly managing the economy in recent years. There's a lot of great news in its four consecutive budget surpluses, its commitment to a five-year tax reduction plan, and the tangible progress made in the reduction of the national debt.

Ginny Bannerman, Insurance Brokers Association of Canada

20 These budget data are presented on a modified accrual basis. On a "full accrual basis," or financial requirements basis, the government has run a surplus since 1996-97. Beginning next year, all government budget data will be presented on a full-accrual basis.

Chart 11: Government Financial Balances — Data for 2001 and 2002 are Projections

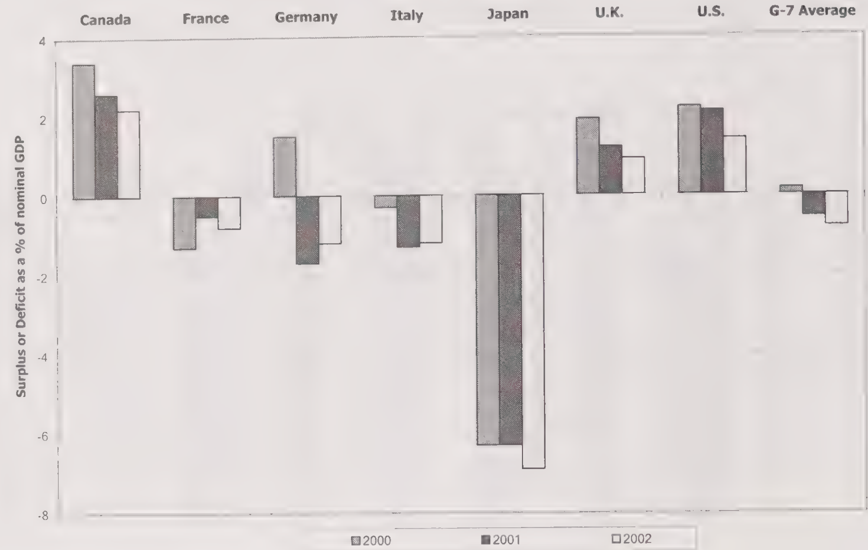


Chart 12: Federal Program Spending as a Percent of GDP

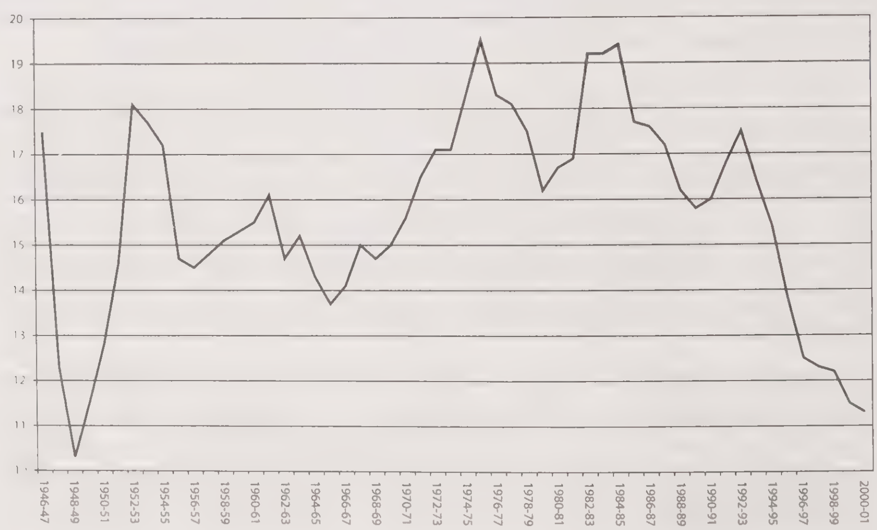


Chart 13: Total Government Net Debt in 2000 (National Accounts Basis)

contributed to past recessions are noticeably absent: expectations of high inflation reflected in rapid real estate price increases have not been evident,[21] the government's fiscal position is relatively healthy, and a relatively benign inflation rate allows the Bank of Canada some scope to lower interest rates as needed. Similarly strong fundamentals seem to be at work at the global level. For example, the Conference Board of Canada in its *Fall Economic Update* noted that "a key indication of the depth of an impending slowdown is the extent of excessive or unsustainable activity preceding the slowdown. Few such excesses preceded the growth slowdown, suggesting that the weakness will be short-lived." The IMF's Kenneth Rogoff recently noted also that "While there are clearly substantial uncertainties about unfolding events, one should not overlook that the economic fundamentals in many countries and in many respects have improved in recent years, and from an economic perspective, this leaves the world somewhat less vulnerable than it otherwise might be." In summary, the risks to the economy are not due to failures of government policy but rather to developments in the real side.

We certainly have seen, since last summer, a decline in the economic expectations of the small business sector. Nevertheless, we've seen, since the events of September 11, quite a stabilization in the outlook of small firms across the country and indeed the sector remains more optimistic than pessimistic. ... We see overall our members having a pretty "steady as you go" reaction to the current economic environment.

Catherine Swift
Canadian Federation of Independent Business

21 Surging real estate prices can be an indicator of inflationary expectations and could therefore lead to tighter monetary policy (i.e., higher interest rates).

CHAPTER I:
THE BUDGET-MAKING PROCESS

The federal budget represents the most important fiscal event in Canada. It not only provides Canadians with a blueprint of expenditures and taxes for the upcoming year, it presents a short-term outlook regarding the nation's economic prospects and the government's financial position.

The budget is the outcome of a long process, involving legislation, government officials, professional economists, business and labour. The budgetary process has evolved over time in response to economic and financial circumstances. Since 1993-94, the Pre-Budgetary Consultations (PBC) process has allowed for the active and public participation of Canadians from all walks of life, leading to enhanced transparency. The PBC process is now well known by Canadians and they have demonstrated their interest by their active participation. Each year,[22] the House of Commons Standing Committee on Finance travels across Canada to consult individuals, business, labour and other groups to ensure that it is exposed to the widest range possible of public opinion in Canada. This increased transparency has even been internationally recognized and applauded. In commenting on the process, the OECD said that: "The Pre-Budget Consultations have been an important element in opening up the budget process and creating an atmosphere where the public feels it can have an input."[23] Canadians have seen the concrete results of that participation through the ultimate incorporation of many of the Committee's recommendations in budget initiatives.

> *The committee's Pre-Budget Consultations play a vital role in the budget making process and have contributed greatly to the government's recent fiscal achievements and to numerous other worthwhile initiatives undertaken by the government.*
>
> **Canadian Life and Health Insurance Association Inc.**

> *The CMA commends the Committee for continuing with this visible and accountable process that encourages public dialogue in the consideration and development of financial, economic and social policies for the country.*
>
> **Canadian Medical Association**

> *I for one want to commend, you, the Committee, and the Minister of Finance and the government for listening through this pre-budget consultation process. We don't always get everything we would like to get, but this is the dialogue that we would encourage.* **Peter Smith**

This year, the events of September 11 only served to heighten our perception of the budget-making process in general, and pre-budget consultations in particular, as a balancing act. Canadians from all walks of life told us that greater attention to national security is their clear priority, but that we must not neglect the future. During our hearings in Vancouver, C.T. (Manny) Jules, chair of the Indian Tax Advisory Board and member of the Kamloops Indian Band, eloquently summed up the dilemma facing the Committee:

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22 In 2000, the PBC process was interrupted by the federal election call.

23 *Budgeting in Canada*, 20th Annual Meeting of Senior Budget Officials, Public Management Committee, OECD, Paris, 1999, p. 9.

This is one of the reasons I came here to this Committee. I feel the Finance Committee has one of the toughest responsibilities of any federal committee, ... given the events of September 11, what are we going to do right now? We've got all of these requests, and It's like what I went through when I was a chief: 'Manny, what are your priorities going to be? You're a chief, so what are your priorities? How are you going to change the world so that your people can live better?' That's the responsibility of each and every one of you sitting here: how can we continue to have Canada remain strong and how can we have Canada remain a true partner in terms of international issues dealing with the economy or dealing with you name it?

Influencing the Budgetary Process

Not only has the budgetary process changed in the sense that public participation is now actively encouraged, it has changed in the manner in which the budget establishes its own set of constraints, namely the time frame over which it applies, the manner in which data are presented and the targets it sets for fiscal policy. These were crucial elements in the government's battle to eliminate deficits and consequently stop the debt from growing. These changes were readily accepted by the Canadian public, as were the budgetary measures. The key elements to success can be summarized by the elements of the Debt Repayment Plan:

- Two-year fiscal plans based on prudent economic planning assumptions;
- The inclusion in the fiscal plan of an annual Contingency Reserve to cover unexpected expenses;
- The use of the Contingency Reserve, when it is not needed, to pay down the public debt; and
- More recently, the promise to announce each fall how much of the projected surplus in excess of the contingency reserve would be used to pay down the debt as well as the explicit inclusion of an economic prudence amount.

Another important aspect of this process is the fall *Economic and Fiscal Update*. This document contains the most up-to-date economic and fiscal data coming from the Department of Finance, based ultimately on a consensus view of private sector economic forecasts. In the past, it was at this time that the Minister of Finance established the deficit target for the next year. Together, these reforms were meant to improve the budget-making process so that the government could deliver budgets better able to address the economic and financial realities of Canada.

Lessons from the Former Budget-Making Process

There has been a long tradition of budget secrecy in Canada. The unveiling of the government's fiscal policy intentions took place on budget day, often without any public inkling as to what the budget may contain. This was especially true with respect to tax matters. This secrecy also affected the budget-making process. While a variety of groups met on a one-on-one basis with the Minister of Finance prior to the budget to plead their case, this was all done behind closed doors. This stands in sharp contrast, for example, to the tradition in the United States where the budget is debated in public over a prolonged period of time.

The failed attempts of the Government of Canada to control budgetary deficits in the 1980s and early 1990s was, to some extent, due to the older, more secretive, budget-making process. Budget-makers seemed incapable of providing credible forecasts. The reliance upon five-year planning horizons enabled governments to present rosy scenarios for the future while they were failing to meet their short-term commitments. Deficit projections were not met even in periods of strong economic growth, the justification being that interest rates were higher than had been anticipated. As a result, in good times as well as bad, the debt grew at unsustainable rates. Put simply, budgetary forecasts were never realized, hurting government credibility and ultimately leading to higher interest rates as investors demanded higher risk premiums to invest in Canadian debt. In other words, the justification for missed forecasts — higher interest rates — had become the result and not the cause of ongoing deficits.

The Need for Credibility in the Face of Heightened Uncertainty

The 1990s showed just how important credibility and fiscal discipline were for our overall economic well-being, with Canada enjoying particularly strong growth in the last third of the decade, just as the government's spending cutbacks were beginning to bear fruit in the form of surpluses. We must not lose sight of this hard-earned lesson in the wake of September 11. The Committee believes the short-term need for increased spending on security and the military, with a strong emphasis on security, actually complement these longer-term objectives given the new economic context. The productivity gains of tomorrow depend on a secure business environment today, as the events of September 11 clearly demonstrate. Tomorrow's productivity gains also depend on maintaining a commitment to balanced budgets, the $100 billion worth of tax cuts announced last fall, increased health care spending and efficient health care delivery and medium-term debt-reduction targets.

The progress that we have made over the past decade in strengthening our economic foundations is remarkable. And it should stand us in good stead, no matter what short-term turbulence and uncertainties we face.
David Dodge

Finding the money needed to ensure the security of Canadians will require determined efforts to chop less essential spending to defer to other proposals for new initiatives.

Business Council on National Issues

A cornerstone of the government's fiscal credibility has been the creation of planned contingency and economic prudence reserves to cushion against unforeseen changes of the kind now being experienced. The current crisis demonstrates the wisdom of this policy because these reserves have provided the government with the necessary breathing room to respond to current events: living up to our NATO commitments, responding to challenges in the airline industry, all without incurring a deficit and undermining our hard-earned credibility. It is, however, misleading to think of these reserves as "money in the bank" since they are really just anticipated or forecast surplus funds and not something that can be spent without risking a deficit.

To the extent that new spending on security and defence could lead to a deficit, the government must balance this new spending with spending cutbacks elsewhere. The Committee recommends that the government make a firm commitment to balanced budgets.

I would say stand pat on fiscal policy and let the Bank of Canada deal with the short-run confidence issues.
David Laidler

The Benefits of Program Review

It is worth recalling just how precarious Canada's financial situation was in the early 1990s and why it is so important that we again work hard to avoid a deficit today, especially after many years of fiscal retrenchment and as the consequent sacrifices imposed on Canadians were beginning to bear fruit in the form of a reduced tax burden and re-investment in health care and measures in support of innovation. During the 1980s, governments faced almost unrelenting bad fiscal news in the form of missed deficit forecasts and a growing public debt. In 1990, the government attempted to control expenditures and restore credibility by implementing the Expenditure Control Plan. This plan affected only 60% of program spending and could not prevent the $42 billion deficit in 1993-94. In 1994, the government recognized that it had to act decisively as there was almost a "crisis atmosphere"[24] with respect to Canada's financial position. It decided to establish, and maintain, hard budget constraints via short-term deficit-to-GDP targets. The biggest test of this resoluteness came as a result of the 1994-95 Mexican peso crisis, an event that had a significant impact on Canadian financial markets, the Canadian dollar, and the economy. The government reacted to these events in the 1995 budget, setting the stage for the

24 *Budgeting in Canada*, p. 10.

complete turnaround of its fiscal position and helping the country weather the Asian economic crisis. A key element of this turnaround was the Program Review exercise that set the stage for spending cuts, based on the following six questions, or tests; all of which are even more pertinent now that the country faces a crisis of a different sort:

- **Public Interest Test: Does the program area or activity continue to serve a public interest?**
- **Role of Government Test: Is there a legitimate and necessary role for government in this program area or activity?**
- **Federalism Test: Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?**
- **Partnership Test: What activities or programs should or could be transferred in whole or in part to the private or voluntary sector?**
- **Efficiency Test: If the program or activity continues, how could its efficiency be improved?**
- **Affordability Test: Is the resultant package of programs and activities affordable, given the government's overall fiscal objectives? If not, what programs or activities should be abandoned?**

> *Increased spending on security is essential, but we believe it can be offset by reduced spending on less important programs. New initiatives can be postponed until a budget surplus has been restored to a more adequate level .... . We would benefit substantially from some of the elements that have been proposed for the innovation agenda. But we feel that there are ample grounds at the moment for postponing the launching of these initiatives until the budget surplus is in better shape.* **David Paterson, Executive Director, Canadian Advanced Technology Alliance**

This review offered an opportunity to gauge the pertinence of programs to the public interest and provided the basis for the budget cuts contained in that, and subsequent, budgets. The government responded with some deep spending cuts. Nevertheless, the public mood has clearly come to side with the government's actions. The Committee has in the past recommended that the federal government strive to limit program spending growth to the rate of inflation plus population growth. Program Review is an important tool for achieving such a goal.

> *If increased spending in the area of national security is to occur in a context of fiscal prudence, funding for other initiatives will inevitably have to be curtailed.*
>
> **Insurance Brokers Association of Canada**

The Committee recommends that the government follow the Program Review process while maintaining a balanced budget in the face of new priority spending.

In 1993, the federal government announced its desire to reduce the fiscal deficit to 3% of the GDP, as an interim target. Many analysts at that time considered this decrease to be too slow or too easily achievable. In the crisis

atmosphere of 1994, others considered it unattainable, especially in light of past experience. Nevertheless, the government remained committed to its targets, even in the face of this economic turmoil.

It was widely acknowledged that the 3% deficit-to-GDP target was only an interim one and that the ultimate goal of the government was to balance the budget. However, by sticking to two-year rolling targets, the government was able to provide realistic and achievable goals. It also provided clear benchmarks against which the government's performance could be judged, allowing Canadians to know if it was going off track. In the words of the OECD, by this approach, " … the government had — by design — created heavy potential costs for itself if it did not succeed."[25] This enhanced the commitment to the targets and enhanced the likelihood of success.

Limiting its forecasts to the short term also increased the probability of success. The odds of success were also improved by employing what some pundits referred to as "a liberal dose of conservative assumptions." This was achieved by employing prudent economic assumptions, i.e., being more pessimistic than the projections of private sector economists. By assuming that interest rates would be as much as 100 basis points higher than forecast by private-sector economists, the government inflated the projected budgetary deficit through higher debt servicing costs. In addition, this procedure lowered forecast growth rates, implying higher unemployment, higher government spending and lower tax revenues.

New Challenges Demand New Approaches

In its last pre-budgetary report, the Committee argued that the new economic environment demanded a new approach to budget making that better suited a world of rapidly expanding budget surpluses. The short-term focus of previous budgets was designed primarily to restore credibility to the federal budget, something that has largely been achieved.

While the events of September 11 and the possibility of a recession and deficit could be seen as a reason to retain the two-year rolling targets, it is worth remembering that most forecasters expect the economy to begin recovering by the middle of next year and return to trend or capacity growth by 2003. This suggests the long-term environment projected in the 1999 and 2000 budget documents is intact; a view apparently shared by Bank of Canada Governor David Dodge, who in a recent speech to the Greater Moncton Chamber of Commerce noted that "it is important that we look through the short term to the longer-term trends and potential of our economy. The first decade of the twenty-first century will continue to bring to Canada and to the rest of the world important technological changes … . This transformation can be expected to raise the potential of our economy to grow and to generate income gains in the decade ahead … . In addition, Canada has made great progress over the past

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25 *Budgeting in Canada*, p. 19.

decade in strengthening its economic foundations: low inflation has been firmly established; the fiscal health of governments has been largely restored; and Canadian businesses have undertaken major restructuring."

In other words, we should continue to look to productivity-friendly initiatives to ensure that long-term prosperity is achieved. New short-term priorities may cause us to detour somewhat, but they should not cause us to lose sight of that longer-term objective.

This means a firm commitment to the government's plan, including such elements as:

- Cutting taxes by $100 billion over five years;
- Injecting $23.4 billion into health care over the same period;
- Continuing to support innovation by funding the CIHR and the granting councils; and
- promoting investments such as the Canada Foundation for Innovation, the Millennium Scholarship Fund and the Chairs of Excellence.

As we noted in our report, *Productivity With A Purpose: Improving the Standard of Living of Canadians*, "productivity growth that promotes a higher standard of living does not arrive overnight. The results will be seen only after some time. Thus it will require that the government look far into the future, and resist the temptation to seek quick fixes." We also stressed in that report that productivity is really the result of many types of investments. These investments not only produce results far into the future, they will only work if they are maintained into the future as well. All of this indicates that we should fix our gaze beyond today or tomorrow and look instead further into the future, in terms of desired effects and in terms of program commitments.

> *I think my colleagues would support me in saying that one of the problems that we often see is that there isn't enough long-term planning. I'm not talking just in terms of fiscal budgeting fl the current government has made strides to try and do that on a longer term ... . I think that's what needed in this country. We [also] have to look at our [physical] infrastructure because it's not a case of whether or not we're going to be reinvesting in our infrastructure ... . It's a case of when and how much.*
> **Michael Atkinson**

Beginning with the 1999 *Economic and Fiscal Update*, the Minister of Finance has presented five-year estimates of the planning surpluses, arguing this would enhance the policy debate concerning future fiscal policy. These estimates included, for example, the estimated costs of the government's tax-reduction plan as well as its re-investment in health care and other social programs. However, the Minister also said it would continue to take decisions only within the context of rolling two-year horizons, i.e., its planning horizon will continue to be two years. It considered longer-term commitments to be subject to too much risk, preferring instead to leave room for greater flexibility in the event of changing economic circumstances.

While the Committee is broadly in agreement with this approach, it is concerned that the May Economic Update employed only two-year fiscal projections. The Committee feels that the five-year estimate of surpluses for planning purposes presents a framework within which the budgetary debate can take place. It also provides an opportunity to make the government's longer-term intentions known. Fiscal measures would, however, only be enacted if the economic and fiscal position permits. The Committee also feels that the government must make decisions within the context of a five-year instead of two-year horizon.

Businesses would have a clear sense of the government's intentions during the next five years and could plan accordingly, making the kind of investments that enhance productivity and lead to a higher standard of living.

Notwithstanding the Committee's preference for a five-year planning horizon, we recognize that we are experiencing unique circumstances. The immediacy of our security needs requires a special focus on the near term and we recommend that the upcoming budget take such a view.

Another important element in the long-term approach should be a renewed and dedicated effort to reduce the country's debt-to-GDP ratio. This, after all, is the legacy of past budgets. It looks far back into our fiscal history and provides a summation of the consequences of that fiscal history. The large size of the debt reminds us of an era when government did not adopt firm targets and consequently mortgaged the future of subsequent generations.

While there has been improvement, Canada's total government net debt (i.e., federal, provincial and municipal debt) as a share of GDP remains well above that of the United States, as can be seen in Chart 13.

So far, the federal government has been reluctant to establish an explicit debt-to-GDP ratio although in last fall's *Economic Statement and Budget Update*, it promised it would announce each fall how much of its anticipated surplus over and above the $3 billion set aside in the contingency reserve would go towards debt reduction. In the absence of targets, we have been left merely with projections and a commitment to, at a minimum, balanced budgets. While important especially in light of current events, this commitment is not, by itself, a guarantor of sound fiscal policy in the long-term, especially since it appears that the contingency reserves for this year and next will be used for increased spending on security and the military, leaving little if anything for debt reduction. Unfortunately, there is no consensus on what constitutes an optimum debt-to-GDP ratio. Nevertheless, it is important that Canada's debt ratio fall in relation to the United States and other major industrialized countries.

We recommend that the government publish in each budget an analysis of debt trends in G-7 countries.

> *The arguments for paying down the debt are very simple. It is unfair to leave future generations with a high tax burden to service the debt, especially since the baby boom generation which incurred it and blew it on consumption is about to leave productive employment and retire. The very high per capita debt service charges*

faced by working Canadians in a few years will require even higher taxes ... than they do now and thus decrease the incentive to work, save, invest and take risks. **Herbert Grubel, Professor Emeritus, Department of Economics, Simon Fraser University**

The Committee further believes the contingency reserve should be more than just a financial safety net: it should be an integral component of debt reduction. Indeed, it should constitute a guaranteed measure of debt reduction. **We recommend that any time the full amount of the Contingency Reserve is not available for debt reduction, the difference should be added to the Contingency Reserve of the following year.** This approach provides the government with a certain amount of flexibility in any given year but reinforces the debt-reduction priority. As a result, the past deficiencies of longer-term planning horizons can be avoided while at the same time providing Canadians with a longer-term blueprint of the government's intentions.

The government is to be applauded on the reduction in debt achieved in recent years, and particularly for the large reduction in fiscal 2000/2001. The government is to be further commended for the approach it has taken in utilizing a contingency reserve in its annual budget, with an extra degree of economic prudence to provide further assistance against falling back into a deficit. This approach no doubt is proving to be very beneficial this year as the economic decline erodes revenue.

Vancouver Board of Trade

The private sector has demonstrated its ability to provide credible projections about the state of the economy, notwithstanding recent events. It has sufficient capacity to provide a wide range of projections, each of which can be judged for accuracy against the performance of other economic forecasters. **We recommend that the Department of Finance continue to use the private-sector consensus forecast for its own economic projections.** This practice goes a long way towards addressing the criticisms of those who believe the government hides the true extent of its budget balance so as to dictate the parameters within which fiscal policy is debated.

...it is essential that the government revise its spending plans in order to ensure that existing reserves set aside for contingency and economic prudence purposes are sufficient to offset any deficit that may arise in its underlying budget balance.

Canadian Manufacturers and Exporters

The Committee applauds the government's commitment to use un-utilized contingency reserves for debt reduction. The Committee also supports the government's commitment to announce each fall how much of the anticipated surplus over and above the contingency reserve will be used to pay down the debt.

Program Review/Productivity Covenant/Regulatory Audit

Program Review was launched in 1994 when the federal government faced a financial crisis, rapidly growing debt and debt service charges. It was implemented within the context of program reductions designed to meet the needs of the 1995 budget — to reduce spending on certain programs by 5% to 60% over the following three years.

While this type of assessment is almost always valuable, the struggle against terrorism demands a quick response, the kind that cannot necessarily wait for the Program Review process to run its course. The government will have to continue to increase spending on security, defence and assisting certain key industries, in addition to what has already been provided. At the same time, and notwithstanding the economic slowdown and widespread calls for maintaining fiscal integrity, the government is still under a great deal of pressure to initiate a variety of new programs, dealing with social concerns as

well as physical infrastructure, health care, research and development and others.

While the Committee does not automatically rule out such spending initiatives, it believes they must meet the very strict standards set out above. Spending programs — including security and defence spending — should have to be justified on a regular basis. Simply because they were required at one point in time does not mean that the original justification is still relevant or useful. **The Committee recommends that any new spending initiative be subject to the rigorous and detailed tests of the principles of Program Review.**

In our view, program spending should also support productivity growth. A good example relates to the use of regulations to achieve certain government goals. Regulations can be effective substitutes for government spending programs. However, the major costs of regulation are borne by the private sector, not the government and hence government committed to budgetary controls might not be as rigorous with regulations. In its 1999 report *Productivity with a Purpose: Improving the Standard of Living of Canadians*, this Committee recommended that these regulations be assessed in the same way as new programs. The government should specify the justification for the regulations (what they mean to accomplish), the total costs (administrative, compliance and behavioural), and the alternatives to regulation. The government should only proceed where regulation is the best alternative and where the benefits clearly exceed the costs. If they do not meet this test, the regulations do not improve living standards and should be rejected.

The Committee recommends that the federal government initiate a regulatory audit of all regulations to ensure relevancy and benefit of regulations in our current context. This audit should include a clear process and schedule for the elimination of undesirable regulations.

CHAPTER II:
SEEING THROUGH THE STORM: HOLDING COURSE ON THE PRODUCTIVITY AGENDA

> *It is important that we look through the short term to the longer term trends and the potential of our economy.*
> **David Dodge**

> *The budget is critically important to boost the confidence of Canadian consumers and SMEs. Small business owners have sent a clear and strong message to the federal government — "Stay the course", continue with the five-year tax plan and do not go into deficit spending.*
>
> **Canadian Federation of Independent Business**

Even in times of crisis and uncertainty, the recipe for a prosperous future does not change. The government must continue to lay the groundwork for a better tomorrow and this Committee continues to support initiatives that advance this goal. Just as the Finance Minister introduced clarity into the budget-making process, let us be clear about our priorities as a Committee as they relate to the long-term health of the economy. These are:

(1) The government must invest in a national security agenda, as a response to the September 11 attacks on the United States and for our ongoing security.

(2) The federal budget should not return to a deficit position. The fiscal credibility earned by the government is still fragile and must not be put at risk.

> *Spending measures in the next budget should respond to public priorities, such as health and education, identified by Canadians.*
>
> **Canadian Chemical Producers' Association**

(3) The government's $23.4 billion commitment to improving health care and early childhood development must be guaranteed. This investment is vital to ensuring the viability of Canada's health care system, a key element of the country's social infrastructure.

(4) The government should forge ahead with its $100 billion tax-cut plan, as announced in the 2000 Budget and fall 2000 *Economic Statement and Budget Update*. These reductions are necessary both to improve our international competitiveness, especially with the United States, and to help spur economic activity. The extent and timing of this commitment should not be compromised.

> *We support the approach the federal government has taken in the past of debt reduction, restoration of social investment, and tax reduction.*
>
> **Confederation of Alberta Faculty Associations**

(5) The government should increase support for research and development, and the Canadian Institutes for Health Research.

In its travels across the country, the Committee found that, generally speaking, Canadians strongly supported these five priorities. While everyone had suggestions on how to make Canada a better place, these five priorities represented a common baseline from which other proposals emanated. Security issues are dealt with extensively in the next chapter.

Each of these five measures, in their own way, contribute to improving productivity, one of this committee's longstanding goals: security spending sets the stage by protecting that which we have built in the past and wish to build in the future; balanced budgets combined with fiscal and monetary credibility help

The Government of Canada has put in place a fundamentally sound fiscal plan. Despite the horrendous events of September 11 and their impact deepening an already weakened economic environment, it is essential for the federal government to show leadership resolve in keeping on track.

Everett E. Colby, Certified General Accountants Association of Canada

As such, it is essential that the federal government not jeopardize the hard-fought fiscal health of the nation by side-lining the deficit-elimination, debt-reduction and prudent spending initiatives that have not only brought Canada to its current state of economic prosperity, but have laid the foundation for future growth.

Canadian Association of Petroleum Producers

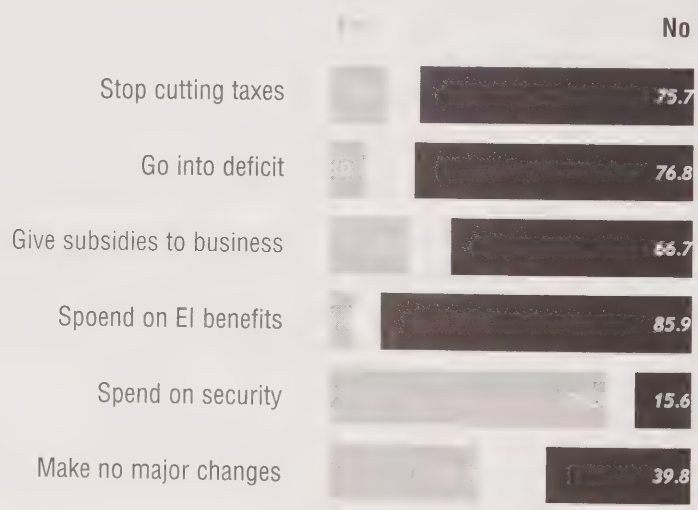
Mr. Chairman, in light of these circumstances, CCGA Canada strongly urges the federal government to proceed with caution to keep on track with the priorities set out in Budget 2000, the October economic statement and the May 2001 update. To do otherwise, could jeopardize the tax cuts promised to Canadians and eliminate the deficit that Canadians worked so hard to achieve.

Everett E. Colby, Certified General Accountants Association of Canada

keep interest rates low and investment high; health care — and R&D — gives Canadian firms a competitive edge that encourages companies to invest in Canada; and, similarly, tax reform reduces economic distortions, improves economic efficiency, helps stem the brain drain, keeps Canadian firms competitive with their foreign counterparts, and improves the overall investment climate in Canada.

The following chart presents the results of a recent survey of small and medium- sized businesses in Canada, conducted by the Canadian Federation of Independent Business in the aftermath of the September 11 events. The small business sector accounts for one-half of GDP and one-half of employment, and the bulk of job growth in the last decade. The survey results are broadly consistent with the Committee's priorities. The chart shows strong opposition to deficit financing and any reversal of the government's tax reduction plan. It also demonstrates an equally strong commitment to increased security spending.

Short-Term Policy Recommendations (September 28 to October 22)



Source: Canadian Federation of Independent Business.

Looking beyond the immediate time frame, the priorities of the small business community also have a strong anti-spending sentiment. Over one-half of respondents see debt reduction as the priority use of future projected surpluses, while one-third believe that tax cuts should be the priority. Only 15% believe that new spending should come first.

Keep the Budget Balanced

In response to the current economic slowdown, there have been calls for the government to embark on deficit spending, both to meet our security needs and to provide a boost to the economy. The Committee believes that this is not the route to go. Even in the early to mid-1990s, when the economy was not performing well, the benefits of sound fiscal policy were increasingly evident as the country's debt grew at unsustainable rates. It was essential that credibility be established.

Credibility has been re-established, but a return to deficits could throw that all away, seriously undermining the hard-earned trust of Canadians. Indeed, Canadians have not forgotten three straight decades of budgetary deficits, in good times and in bad. As David Paterson, Executive Director of the Canadian Advanced Technology Alliance (CATA), told the Committee: "We believe that the challenges that face us can be met without a major boost in government spending, without damaging Canada's fiscal integrity. Increased spending on security is essential, but we believe it can be offset by reduced spending on less important programs. New initiatives can be postponed until a budget surplus has been restored to a more adequate level."

Witnesses who appeared before the Committee recognized that a renewal of our security commitments requires additional resources. However, they also told the Committee they valued a sound fiscal approach to the government's finances. They did not support a return to deficit financing. Maintaining sound finances is essential for maintaining consumer and business confidence. As over 20 years experience with out-of-control deficits proved to Canadians, it is only too easy for chronic deficit spending to result in high interest-rate payments (which absorb money that could have been spent elsewhere) and severe cutbacks when the bill finally comes due.

Years of cutbacks have finally begun to pay dividends. Fiscal 2000-01 marked the fourth consecutive year of budgetary surpluses. As a result, the government has been able to reduce the debt by $35.8 billion since its peak in 1996-97. This represents an ongoing saving of $2.5 billion each year in lower interest payments to service the debt.

Witnesses told the Committee — and we share their opinion — that additional spending on national security should not push the government back into a deficit position. In an economic slowdown, spending on Employment Insurance and other social welfare benefits — which act as social and economic stabilizers during economic slowdowns — will automatically rise, leading to a short-term cyclical deficit. The government should respond to such threats by taking appropriate spending cuts elsewhere to ensure that deficits do not occur.

Bill Strain (Chair, Taxation, Conference for Advanced Life Underwriting, Canadian Association of Insurance and Financial Advisors) echoed many witnesses in voicing his support for the government's commitment to prudent government financing. "It's been a long tough fight to get the deficit under

There are some who believe that with four consecutive budgetary surpluses under its belt it is time for the government to allocate funding to new programs or to expand existing ones. However, based on our fiscal analysis, we are convinced that additional spending commitments would be imprudent and would jeopardize the government's ability to deliver on its current debt and tax reduction commitments.

Canadian Institute of Chartered Accountants

Canadians made a huge sacrifice in the 90's to pay off government deficits. We do not support initiatives that would take the fisc back into deficit.

Retail Council of Canada

The federal government must always remember that these surpluses were earned through the hard work of Canadians who paid higher taxes and endured cuts to services.

St. John's Board of Trade

Interest on the debt is a drain on government resources, and a major obstacle to the kind of tax reforms, which could enhance the economy's efficiency.

David Laidler

There can be no doubt that the war against terrorism will require additional spending. Such new costs, however, should not be simply loaded on top of a business-as-usual approach to all government activities.

Business Council on National Issues

This achievement (moving the country away from deficit financing at the federal level) is much too important to abandon now and all the members of the Canadian chamber urge the government to avoid a return to deficit financing.

Nancy Hughes Anthony, Canadian Chamber of Commerce

control, to reverse the trend line of increasing debt loads, increasing debt-to-GDP ratios. We've finally seen the turning point and the beginning of some success in that area. I would comment that I don't believe that fight is over by any stretch. Yes, we've had a huge impact from September 11, we have to address that. Finance Minister Paul Martin, in his budgets over the last number of years, has built in contingency funds. If there was ever a need for a contingency fund, this is it, no question about that. I think those issues have to be addressed."

Protect the Investment in Health Care

Strategic investments in health and health care improve our ability to succeed in the highly competitive world marketplace.

Canadian Medical Association

Canada's health care system is an essential part of the country's social fabric: its universal nature is one of the expressions of what it means to be a Canadian. It also is a key determinant of Canada's competitiveness in the world.

> *In the global marketplace, access to a publicly funded health care system translates to increased global competitiveness for Canadian business and is a major incentive for international corporations to locate in this country.* **Peter McKinnon, Chief Executive Officer, Colchester East Hants Health Authority, on behalf of the Nova Scotia Association of Health Organizations**

A viable system would take into account population growth, an aging population, new technologies and economic growth. Funds would be targeted to home care, long term care, community care and pharmacare.

Alberta Association of Registered Nurses

Throughout the pre-budgetary consultation process, the Committee heard that protecting and improving the health care system remains a priority for Canadians. The Committee shares the view that the government's commitment to the health care system must be protected. Specifically, recognizing the importance to Canadians of a well-functioning health care system, we call on the government to follow through on its commitment to invest $23.4 billion through 2005 to support the federal-provincial agreement on health care services reached on 11 September 2000. Earlier, we discussed how addressing the national security impact of September 11 has affected Canadians' priorities. Even — especially — after 11 September 2001, the need for a strong universal health care system is of vital importance to all Canadians.

It is imperative that Ottawa make regular, predictable contributions to the funding of health care in Canada to bring stability to the system.

Ontario Hospital Association

Federal Support for Health Care Renewal

On 11 September 2000, Canada's First Ministers agreed on a shared approach and action plan for renewing health care services and reporting to Canadians on progress made. As part of its commitment, the federal government announced $23.4 billion of new federal investments over five years to support the health agreement, together with an agreement on early childhood development. This investment consists of two major components:

- $21.1 billion over five years to the Canada Health and Social Transfer (CHST). This includes $2.2 billion for early childhood development. As a

result, the cash component of the CHST will rise from $15.5 billion in 2000-01 to $21 billion by 2005-06.

- $2.3 billion to purchase up-to-date medical equipment, improve information systems supporting health services and accelerate changes in the way primary health care is provided to Canadians.

Federal Support for Health Care System

	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	Total new cash
	Fiscal Year $ billions						
Canada Health and Social Transfer[1]							
Current cash[2]	15.5	15.5	15.5	15.5	15.53	15.53	–
General cash increase	–	2.5	3.2	3.8	4.4	5.0	18.9
Early childhood development		0.3	0.4	0.5	0.5	0.5	2.2
Total CHST Cash	**15.5**	**18.3**	**19.1**	**19.8**	**20.4**	**21.0**	**–**
Medical Equipment Fund	0.5	0.5	–	–	–	–	1.0
Health information technology	0.5	–	–	–	–	–	0.5
Health Transition Fund for primary care	–	0.2	0.2	0.2	0.2	–	0.8
Total Cash[4]	**16.5**	**19.0**	**19.3**	**20.0**	**20.6**	**21.0**	**–**
CHST tax point transfers	15.9	15.7	16.4	17.2	18.1	18.9	–
Total CHST entitlements	31.4	34.0	35.5	37.0	38.5	39.9	–
Total Funding	**32.4**	**34.7**	**35.7**	**37.2**	**38.7**	**39.9**	**23.4**

[1] The CHST supports provincial/territorial programs in the areas of health, post–secondary education and social services.

[2] Current cash includes both CHST supplements of Budget 1999 ($3.5 billion) and Budget 2000 ($2.5 billion).

[3] Existing legislation extends to 2003–04. $15.5 billion is base cash for subsequent years.

[4] Sum of total CHST cash transfers and funding for non–CHST measures.

Source: Department of Finance, fall 2000 *Economic Statement and Budget Update.*

Throughout the pre-budgetary consultation process, the Committee heard many proposals to address the challenges faced by the health care system. Some of these included recommendations that the federal government adopt more responsibility in health care, an area that is constitutionally a provincial jurisdiction. Some groups proposed, for example, that the federal government tie its funding more explicitly to health care rather than deliver it through block funding or tax points, as is currently the case. This would, they argued, prevent the provinces from using funds intended for health care for other purposes such as tax reduction.

> *The financial burden on provinces to keep up with escalating costs in health care is unsustainable over the long term.*
>
> **Ontario Hospital Association**

> *While we agree with the premiers that more money is needed, we agree with the Health Minister and the Intergovernmental Affairs Minister that at times, certain provinces have used health care dollars for purposes other than health care and that is wrong. This can be fixed by providing the money asked for by the provinces, but with strings attached. … In sum, I am saying that the federal government must fully fund Medicare and you*

must require accountability from the provinces. **Kathleen Connors, President, Canadian Federation of Nurses Union**

Although health care is a provincial responsibility, the OHA supports the critical role of the federal government in maintaining national standards under the Canada Health Act and in promoting a domestic health industry that is competitive with the rest of the world. **Ontario Hospital Association**

The Committee notes that there are currently two important studies into the future of the health care system underway. The Senate Study on the State of the Health Care System in Canada (Senator Michael Kirby, chair) and the Commission on the Future of Health Care in Canada (Romanow Commission) have been charged with laying out a blueprint for what federal and provincial governments can do to re-invigorate the health care sector. The Senate Committee report is expected next winter, while the Romanow Commission's report is expected by the end of 2002.

The Committee looks forward to the Kirby and Romanow reports and their recommendations on how to improve Canada's health care system.

Sharing Best Practices

I don't think we ever argue that the solution (to health care problems) is simply more and more money. What I think I would argue is that we cannot solve the money problem by constantly squeezing the system further and making more and more demands on front-line staff, particularly the physicians and nurses. The evidence that's available to us is that the era of constant cost-cutting as a way of responding to these financial pressures is over and the era of social choice in dealing with them needs to start in a very fundamental way. **David McKinnon, President, Ontario Hospital Association**

Fixing the health care problems will require more than just money.

CanWest Global Communications Corp.

The Committee also heard a number of proposals that would cost very little but would nevertheless help improve delivery and efficiency in the health care system. One such proposal was the suggestion that the government create a "best practices" fund to reward creative and innovative health care practices. This would not only create an incentive to develop efficient and effective medical techniques and practices but could also help disseminate knowledge about these practices if the reward were sufficiently publicized. For example, the Committee heard how the Sault Ste. Marie and District Group Health Association has been a pioneer in the field of health information sharing but has not received the widespread recognition it deserves, at least in part because Sault Ste. Marie is, according to David Murray, President and Chief Executive

Officer of the District Group Health Association, "a bit off the map in Ontario, and perhaps nationally. We don't get much press. But there are others who do find our way of delivering health care quite unique."

> *One of the unique aspects of the way in which we deliver health care is our electronic medical record [EMR]. It's the most comprehensive installation of electronic medical record in all of Canada, dealing with 50,000 primary care patients. It's the cornerstone of every intervention that we have. Each time somebody visits their physician's office, or sees one of our allied professionals, or gets lab results, it's all done through the electronic medical record. The other benefit of the EMR is it allows us to do research into chronic disease management. The electronic medical record has also allowed us to save space, reduce costs and the running of paper, running charts around, etc. Those are savings we've been able to put directly into patient care. Mr. Chairman, we believe that EMR is a key tool and we've used it to improve health outcomes for our patients. It's another example of why our health care facility can show leadership in this area and we think it's something that needs to be adopted across the country ... .* **David Murray, President and Chief Executive Officer, Sault Ste. Marie and District Group Health Association; Group Health Centre**

A number of other groups suggested proposals similar in substance to the best practices fund. For example, the Canadian Nurses Association recommended that the government create an award to recognize employers who promote nursing excellence. This kind of program could easily be folded into a best practices reward fund.

The Committee also heard a proposal to implement a Canada-wide system of hospital report cards similar to the one adopted by the Ontario Hospital Association in 1998. These report cards measure clinical performance, financial performance, consumer satisfaction and the process of change within the hospital and can play an important role in helping hospital administrators benchmark their performance against other hospitals. In turn, this helps them identify weaknesses and strengths in their hospital and elsewhere throughout the health care system.

> *It [the report card system] has, in academic circles, been very much welcomed as a groundbreaking effort and we are having extraordinarily great difficulty in getting that system adopted in the other provinces of Canada. Now for us that's important because the more comparatives we*

have the better. We have a unique situation here in that we have done all the pioneering work necessary to report fully and completely on the hospital system which is basically adaptable to the other provinces and none have done that. **David McKinnon**

The Committee notes that the government has already taken several important steps to encourage the dissemination of best practices and increased efficiency through the use of technology in the delivery of health care services. In last fall's *Economic Statement and Budget Update*, the government committed to investing $500 million in an independent corporation whose mandate is to develop and spread the use of common, country-wide information standards and compatible communications technologies. The ultimate goal of this program is to create electronic patient records that will be accessible regardless of the patient's location.

In the 1999 Health Budget, government provided some $328 million over four years to improve the quality and availability of health information and to further develop health information systems across the country. This funding is helping provide information for the use of patients, health care providers and governments. The information gathered is used to report to Canadians on how the health care system is serving them, fostering greater accountability to the public. The funding also serves in investing in modern information technology such as telehealth.

Another component of the government's strategy to improve the efficiency of the health care system was the creation of the Canadian Health Network, an arm's-length agency funded by Health Canada whose mandate is to "empower the public, strengthen and integrate health care services, and create the information resources for accountability and continuous feedback on factors affecting the health of Canadians." The federal government also allocated $550 million over a three-year period for health-related research and innovation with the goal of improving diagnosis and treatment of diseases, promoting best practices in health care delivery and enhancing the health and well-being of Canadians.

These kinds of investments are essential to maintaining and enhancing our competitive advantage in the field of health care. Along with many witnesses, we believe that this can be achieved by continuing to develop and implement new information technologies, collecting new health-related data on health and health care and assessing the effectiveness of diagnosis methods, treatments and ways of delivering health care.

The Committee supports the government's ongoing efforts to use new technologies to improve the accountability, efficiency and effectiveness of medical treatments and to disseminate best practices throughout the country. The Committee encourages the government to expand on these existing efforts by creating a fund to reward and help disseminate best practices. The Committee also recommends that the government work with the provinces to develop hospital report cards to better identify areas where savings can be had and where new expenditures are most needed.

Tax Policy

This Committee has long advocated the lowering of tax rates and making the tax system "smarter" and more competitive with its major competitors, especially the United States. In its 1999 PBC document, the Committee recommended that basic personal amount should be increased, marginal tax rates should be reduced, the 5% surtax should be eliminated, the corporate tax system should be made more neutral and internationally competitive, and capital gains should be taxed at a lower rate than was then the case. All these recommendations were adopted in one form or another in the 2000 Budget and the fall *Economic Statement and Budget Update*.

There is a clear and measurable benefit to Canada's economy and its citizens when taxes are cut.

Canadian Restaurant and Food Services Association

Past Actions

From 1993 through to fiscal 1996-97, the bulk of the government's tax measures consisted of the closing of tax loopholes, small tax increases and "base-broadening" measures designed to bring in more revenue and eliminate the deficit. Since then, however, the thrust of government tax policy has shifted to one of either holding the line on tax rates or of tax cuts, with the bulk of the latter coming in the 2000 Budget and the 2000 *Economic Statement and Budget Update*. Indeed, the income tax structure was little changed for most of the 1990s. From 1988 through to the beginning of 2000, there were three marginal tax rates of 17%, 26% and 29%.[26] Moreover, tax thresholds (the levels) were little changed throughout,[27] adding an element of regressivity to an otherwise progressive tax system: individuals whose income rose in line with inflation below 3% often found themselves in a higher tax bracket even though their real income (after inflation but before taxes) had not changed.[28]

We commend the government for delivering on its commitment to reduce personal taxes and for achieving its third consecutive fiscal surplus in 2000.

Canadian Bankers Association

The government, in its 2000 Budget and October 2000 *Economic Statement and Budget Update*, responded with over $100 billion in tax cuts, significantly lowering personal and corporate tax rates. In response to another Committee recommendation, the government raised to 30% the permissible foreign content of investment in registered pension plans (RPPs) and registered retirement savings plans (RRSPs). The government also reduced the capital gains inclusion rate in two stages to 50% from 75%.

Tax cuts will help Canada to keep pace with other industrialized nations of the G-7, which are implementing similar corporate tax reductions.

Insurance Bureau of Canada

The 2000 Budget and fall 2000 *Budget Statement and Economic Update* therefore represented some of the most radical changes to the income tax system since at least 1988. On the personal income side, it restored full indexation for most tax thresholds as well as the basic exemption, eliminated the 5% deficit-reduction surtax, and cut the lowest tax rate to 16% and the

The Canadian chamber has applauded the government for its five-year tax reduction proposals introduced in the Economic Statement and Budget update of October 2000. Given current economic conditions, it is imperative to continue the implementation of this plan. The January 2001 start of the tax reductions could not have been better timed and the next phases of the plan are equally important.

Canadian Chamber of Commerce

26 Prior to 1988, there were ten marginal tax rates, ranging from 6% on the first $1,320 to 34% on taxable income exceeding $63,347.

27 The tax thresholds in 1988 were $27,500 and $55,000 versus $29,590 and $59,180 at the beginning of 2000. That represents a 7.6% increase during a 12 year period compared with a 30% increase in the consumer price index over the same period.

28 While tax thresholds (brackets) were indexed to inflation above 3%, this meant little in practical terms because the Bank of Canada showed a strong determination to keep inflation below this threshold. It was successful for most of the decade.

As one of the few sectors of the economy that is generating economic growth, the oil and gas industry needs to be included in the announced schedule of rate reductions, the same as the rest of corporate Canada. This is of utmost importance to ensure that Canada does not lose out in maintaining and attracting significant amounts of globally mobile, job-creating investment capital.
David Daly, Canadian Association of Petroleum Producers

middle rate to 22%. The rate for income between $60,000 and $100,000 was cut to 26%, with income above $100,000 now facing a 29% rate.

On the corporate side, the fall 2000 *Budget Statement and Economic Update* accelerated the Budget 2000 plan to cut the general corporate tax rate to 21%.

Tax Cuts Announced in the 2000 Budget and fall 2000 Economic Statement and Budget Update

Personal Tax Cuts

- Restored full indexation of the tax system;
- Increased basic exemption to at least $8,000;
- Reduced the 17% rate to16%;
- Reduced the 26% middle tax rate to 24% in Budget 2000, and to 22% in the Economic Statement;
- Reduced 29% top tax rate to 26% on incomes between about $70,000 and $100,000.
- Eliminated the deficit-reduction surtax;
- Increased the amount at which the middle tax rate applies, beyond indexation, to at least $35,000;
- Enriched the Canada Child Tax Benefit (CCTB) to a maximum of more than $2,500 for a first child by 2004;
- Raised to 30% for 2001 the permissible foreign content of investment in registered pension plans (RPPs) and registered retirement savings plans (RRSPs);
- Increased the disability tax credit amount will be raised to $6,000 from $4,293;
- Raised the credit amounts for caregivers of dependent relatives who are elderly, infirm or disabled to $3,500 from $2,386;
- Increased the tax exemption for income from scholarships, fellowships and bursaries to $3,000 from $500; and
- Doubled the education amount subject to a tax credit for full-time students to $400 from $200, and for part-time students to $120 from $60.

Corporate Tax Cuts

- Committed to reducing the general corporate tax rate to 21% from 28%, through a one-point reduction in 2001 followed by a two-point cut in each of the following three years;
- Reduce the corporate tax rate to 21% from 28% on small business income between $200,000 and $300,000;
- Reduced the capital gains inclusion rate from three-quarters to one-half;
- Allowed the postponement of the taxation of gains on shares acquired under qualifying stock options to when shares are sold, rather than when the options are exercised;
- For tax-free rollovers, expanded the size of eligible investments to $2 million from $500,000 and their availability to business worth $50 million (from $10 million); and
- Allowed self-employed individuals to deduct the portion of Canada Pension Plan and Quebec Pension Plan contributions that represents the employer's share. Cumulative Tax Relief

Cumulative Tax Relief

	2000–01	2001–02	2002–03	2003–04	2004–05	Total
			$ billion			
Personal income tax	6.2	12.7	15.6	18.3	22.3	75.2
Corporate income tax	–	0.6	1.9	3.2	4.4	10.1
Employment insurance	1.5	2.5	3.0	3.8	4.4	15.2
Total	**7.7**	**15.9**	**20.5**	**25.3**	**31.1**	**100.5**

Note: Numbers may not add due to rounding.

Source: Department of Finance, fall 2000 *Economic Statement and Budget Update*

Total Tax Relief Provided by the Statement and 2000 Budget Tax Plan

	2000–01	2001–02	2002–03	2003–04	2004–05
			$ million		
Reduced Tax Rates					
17% rate to 16%	480	1,940	2,115	2,235	2,430
26% rate to 22%	2,215	4,755	5,300	5,690	6,105
29% rate to 26% for incomes between $61,509–$100,000	235	965	1,090	1,140	1,130
Eliminated 5% surtax	345	885	995	1,075	1,150
Increased Thresholds[1]					
Personal/spouse amounts to $8,000/$6,800	440	860	1,335	1,885	2,625
2nd tax bracket to $35,000	315	475	740	1,220	2,130
3rd tax bracket to $70,000	125	335	550	930	1,635
Tax Assistance					
Increased Canada Child Tax Benefit	440	1,250	1,675	1,920	2,560
Increased tax assistance for people with disabilities	35	125	130	130	135
Increase tax assistance for caregivers	5	20	25	25	25
Business taxes					
Reduced capital gains inclusion rate	40	300	730	1,060	1,280
Rollover of capital gains	20	125	125	125	125
Stock option deferral	10	75	75	75	75
Reduced corporate income tax rates	105	765	1,820	2,985	4,075
C/QPP deduction for self-employed	–	40	65	65	65
Flow-through share tax credit for mineral exploration	5	35	40	50	20
Education					
Increased education credit	10	225	230	240	240
Technical measures including other indexation	35	205	475	660	845
Total Tax Relief	**4,900**	**13,380**	**17,515**	**21,510**	**26,650**

Note: Estimates may differ from those in the 2000 Budget because of changes in the underlying economic projections. Where applicable, estimates include indexation.

[1] Estimates include the cost of indexation and scheduled increases in 2004.

Source: Department of Finance, fall 2000 *Economic Statement and Budget Update.*

Going forward, the government must not use short-term tax relief to try to stimulate the economy. Much like calls for spending increases to address the current slowdown, the government must resist any measure that threatens its hard-earned fiscal integrity. More than ever, we must be true to the words of the 1998 pre-budgetary report, where this committee remarked that "we must ensure … that tax relief is sustainable, so that we do not embark on a roller-coaster ride of tax cuts followed by tax increases whenever the budgetary position is threatened by financial turmoil and economic slowdown." In the Committee's view, tax reduction and reform should have long-term economic efficiency in mind, not short-run stimulation.

Maintaining the announced schedule of corporate income tax rate reductions is essential for shoring up business confidence and capital investment.

Canadian Association of Petroleum Producers

The Committee recommends that the government proceed with its $100 billion tax-cut plan.

We urge the government to 'stay the course' with respect to announced tax reductions.

Vancouver Board of Trade

> *It is the view of CGA Canada that the current circumstances and events require the federal government to show leadership and resolve, commitment to its sound fiscal strategy, carrying through promised income tax reductions and lower interest rates will serve to rebuild Canadians confidence.* **Everett E. Colby, Chairman, Taxation Policy, Canadian Certified General Accountants Association of Canada**

These tax cuts were not merely a way of rewarding citizens for their forbearance during some difficult cost-cutting years, they also served the broader, long-term productivity agenda. First, the tax cuts announced in the 2000 *Economic Statement and Budget Update* brought Canada's personal and business income tax rates more in line with the United States, which as our major trading partner, source of capital and destination for capital, is the relevant comparator. While subsequent reductions in U.S. personal tax rates reduced the margin by which Canada's tax cut plan closed that gap, Canadian tax rates are now far more competitive with the U.S. as a result of the measures taken in last year's two budget documents.[29]

The January 2001 start of the tax reductions could not have been better timed and the next phases of the plan are equally important."

Nancy Hughes Anthony, Canadian Chamber of Commerce

Future Challenges

While spending pressures on the government will most likely increase, the Committee believes it would be counterproductive to delay or revoke any part of the government's 2001 tax cuts. According to Dr. Dale Orr, Chief Economist with DRI/WEFA Inc., the tax-cut package remains affordable. More important, these personal and corporate income tax reductions are essential for making Canada an internationally competitive economic environment. As the

We recognize that major additional tax cuts are unlikely at this point since money is needed to beef up security. However, it is useful to rank the tax reductions that are the most beneficial to the job creators.

Canadian Federation of Independent Business

29 As this document was being prepared, the U.S. government was debating an economic stimulus package (related to the September 11 attacks) that would partly be composed of further tax cuts.

government noted in the 2000 Budget, the tax-reduction plan "will improve living standards for Canadians. It means more money in the pockets of Canadians, stronger economic growth and enhanced job creation."

Continuing on the path and accelerating the pace of both personal and corporate tax rate reductions will enable Canada to remain fiscally competitive with its trading partners.

Canadian Association of Petroleum Producers

Budget 2000 and the October 2000 Economic Statement and Budget update brought several welcome changes to Canada's tax regime but, without doubt, more needs to be done to reduce our overall tax burden and excessive public debt if we are to be sufficiently competitive.

Canadian Chamber of Commerce

It would also be imprudent, however, to close the door on future tax cuts. While the 2000 tax cuts improved our competitiveness vis-à-vis the United States, and while comprehensive tax cuts may not be viable at the moment, there still remains work to be done. In their submissions to the Committee, the Canadian Steel Producers Association, the Insurance Bureau of Canada, Chambre de Commerce du Québec all remarked on the importance of continued attention to the competitiveness of our tax system. The challenge to make the tax system smarter and more competitive is ongoing.

> *The essential message is the government has committed itself to ensuring a competitive tax system for Canada. We absolutely support and applaud that, but it's not a static thing.* **Canadian Steel Producers Association**

> *We feel that there are still strong grounds for further reductions in corporate taxes, especially on the capital tax, which is a notorious disincentive for investment. It's a very negative factor when people are looking at investing in Canada.* **David Paterson**

In the United States, the basic investment vehicle for venture capital investment is the Limited Partnership. The CVCA proposes that the (Income Tax) Act be amended to allow the Limited Partnership vehicle to perform the same role in Canada.

Canadian Venture Capital Association

The U.S. has for many years pursued a policy of not taxing foreign investors on capital gains generated in the U.S. so long as the foreign investors did not incorporate in the U.S. This is commonly known as the "10 Commandment Rule."

Canadian Venture Capital Association

The Committee recommends that the government continue to pursue an agenda of tax reform. It should be prepared not just to cut taxes but also to reform the tax base.

The Continued Need for Productivity Improvement

The Committee has long championed the importance of productivity improvements to Canada's well-being. Productivity increases are not an end in and of themselves: few rejoice in knowing that a company can produce more widgets in an hour with the same number of workers than it could before it bought the latest piece of production equipment. Rather, productivity increases allow firms to lower costs and prices, and thereby achieve a competitive advantage over rivals. These lower costs, in turn, allow individuals to acquire more goods for the same amount of money. Productivity increases are the result of the competitive drive, the need to obtain an "edge" over a competitor. Once obtained, this incites competitors to in turn seek out even greater productivity gains, once again leading to lower prices and ultimately greater real wealth since any given level of wages will now purchase more goods and services.

To get a sense of how powerful an effect productivity can have on everyday life, consider these simple statistics: at the beginning of the 20th century, it took

nearly 15 farmers to produce the food consumed by 100 Americans.[30] If one had projected in 1910 that by 1990, only one farmer would be available to produce food for each 100 consumers, one might have projected famine and mass starvation. In fact, farm workers did fall rapidly from 15% of the population to about 1% today, with no adverse effects on food consumption. Indeed, the major problem facing farmers is that they can produce far more than they can sell, at least at profitable prices. These tremendous

In previous budgets and economic updates, measures have been introduced to enhance economic performance through stimulating innovation and improved productivity. More needs to be done.

Vancouver Board of Trade

Technically, productivity is a measure of the amount of resources it takes (labour, capital, knowledge) to produce a given level of output. It tells us, in other words, how efficiently society is using its resources. The most widely cited productivity statistic measures labour productivity, that is the ratio of the economy's total output, as measured by real GDP, to the number of hours worked over some given period.

Recently, researchers have been preoccupied with trying to explain why Canadian labour productivity growth has badly trailed that of the United States in the 1990s, especially the latter half. Over four years, Canadian labour productivity grew by 4.2% while American labour productivity grew by 11.5%. Over the two decade period 1978 to 1999, annual American labour productivity growth was 70% higher than Canadian. While productivity measurements suffer from a variety of statistical revisions and mis-measurement problems, the labour productivity comparisons tell a consistent story.[31]

Closing this (Canada-U.S. productivity) gap is one of the most important economic challenges that Canadians will confront in coming years.

Everett E. Colby, Certified General Accountants Association of Canada

Multifactor productivity trends are quite different. In fact, Canada's multifactor productivity growth[32] *before* the U.S. GDP revisions is actually slightly *better* than in the United States during the last 40 years. As Statistics Canada notes, "what is remarkable about the historical performance of productivity growth in the Canadian economy is its similarity to that of the United States … . Over almost 40 years since the 1960s, Canada has continued to move in step with the United States."[33] Nevertheless, it is labour productivity that is more closely linked to standard of living changes, which is the ultimate concern of the Committee.

Economist Rick Harris, Simon Fraser University, has "done some empirical work, which shows that every time the exchange rate falls, you do get some productivity bump-up in the short run — our utilization goes up, because we can export more easily to the U.S. But over the long term, we tend to get a decline in productivity relative to the U.S."

Dr. Thomas Courchene, Department of Law, Queen's University

The nuances of the statistical debate should not, however, unduly influence policy-makers or this committee. It is worth quoting the Committee's previous work at length on this point: "we should not pursue this (productivity) agenda because of any real, or apparent, gap between our productivity and that of other countries, particularly the United States. While international comparisons are useful in providing us with benchmarks against which we can measure our own performance, these comparisons should not dictate our own policies. The goal is not to become like Americans or Germans or Japanese. The goal is to achieve our potential and to deliver the highest standard of living possible, now and in

30 While similar data for Canada were not readily available, broad trends in overall productivity between Canada and the U.S. suggest that the same holds true for Canada.

31 These measures pertain to business sector labour productivity.

32 Multifactor productivity measures the productivity of both labour and capital. It is subject to its own statistical nuances in that it is difficult to measure the size of the capital stock.

33 Statistics Canada, *Productivity Growth in Canada*, 15-204-XIE, 1999, p. 59.

the future. And whether or not our productivity performance is slightly better or worse than we thought it was, it is clear that we can do better."

The challenge then is to come up with creative and innovative policy suggestions that can help us achieve our long-term productivity goals. **The Committee reiterates its long-standing recommendations that the government should commit to a productivity covenant. Just as Program Review is an ongoing examination of federal spending, this covenant should subject all existing government initiatives (spending, taxation and regulation) to an assessment which evaluates their expected effects on productivity and hence the standard of living of Canadians. Every new budgetary initiative should be judged according to this productivity benchmark.**

One important benefit of such a requirement is the fact that it provides a common benchmark against which to compare a variety of beneficial policy proposals. While it would be difficult to provide a quantitative assessment of many proposals, one should be able to provide a qualitative judgement as to whether proposals advance or hinder productivity growth.

CHAPTER III: *NATIONAL SECURITY AND THE ECONOMY*

The horrific terrorist attacks of September 11 changed the way we see the world. At that instant, old concerns fell by the wayside.

The Committee's Pre-Budget Consultation hearings reflected this new reality. Each group and individual had worked hard over the summer preparing their briefs as per the Committee's request, detailing what they believed needed to be done to make Canada a better place, only to be confronted by a changed world when they finally appeared in front of the Committee. And almost to a person, their reaction was the same. Witness after witness told the Committee that greater attention should be paid to bettering our national security. They, like all Canadians, understood that in times such as these, some initiatives may need to be put on hold in order to deal with the pressing issues of the moment.

> *There has been a disturbing increase in the number and severity of terrorist acts throughout the world, including North America. Canada is no less vulnerable to these acts.*
>
> **Canadian Association of Fire Chiefs**

As pressing and as real as these security concerns are, a country is built over the long-term, not the short-term. Witnesses warned the Committee of the dangers posed by losing sight of longer-term prosperity objectives. On the morning of September 11 our eyes may have looked upon a changed world, but our ultimate goal of improving the standard of living of Canadians has not changed. The basic rules of sound economic management to create the conditions necessary for Canadians to prosper remain the same.

> *Especially in times of economic uncertainty and heightened national security, the federal government must base its public investments on the highest rate of social return.*
>
> **Assembly of First Nations**

The Committee's vision of the budget is driven by these two imperatives: to heighten Canadians' sense of security today while promoting future prosperity.

Security Issues

National Security: Why it is Top Priority

> *The physical and economic security of Canadians should be the government's first priority for fiscal policy.*
>
> **Canadian Manufacturers and Exporters**

National security — embodied by Canada's military, policing and security agencies — is important for many reasons, not the least of which is to assure Canadians of their safety as they raise their families and live their daily lives. From an economic perspective, national security is a form of social capital: it protects the conditions necessary for the efficient functioning of the economy, allowing Canadians to go about their business. One need only look at the chaos caused by the terrorist attacks — economic activity disrupted and the grounding of all civilian aircraft in Canada and the U.S. — to appreciate the role national security plays in safeguarding the economy. With this new threat, national security takes on a new importance.

> *We recognize, also, that recent events have changed the economic climate and also the priority of Canadians, and we wholly support the priorities of Canadians around issues of security and issues of protecting Canadians.*
>
> **Laurie Beachell, Council of Canadians with Disabilities**

National security protects the conditions needed to create prosperity. For example, Canada depends on air travel to keep Canadians connected, to move goods and people from Prince Edward Island to British Columbia to California. Its infrastructure — roads, rail, and seaways — must be protected to allow for

the safe movement of people and goods. Other parts of the infrastructure — such as computer systems, the electronic payments system, and power plants — need to be considered as well. Increased spending on national security is a necessary investment in light of new threats.

National security is also a true public good: all Canadians benefit from policing services and national defence. As it is impossible to charge each Canadian individually for their share of national security, governments are responsible for providing it. Because of this public goods nature, the private sector does not face sufficient incentives to provide enough national security.

Airline Security

There is a strong economic argument to be made that airline security is a public good. As a reminder, a public good is one whose benefits accrue to all of society and for which it is difficult and costly to exclude others from using. Most of the people who were killed in the September 11 terrorist attack were not in airplanes; they were at their desks in the World Trade Centre and the Pentagon. Clearly, airline security is important not only to airline passengers and crew, but to everyone. Using the same argument, we note that safe and reliable air travel is a vital underpinning to our national well-being. There is, therefore, a clear argument that government should be involved in airline security. Furthermore, the same arguments can be used for the protection of other critical infrastructure, such as hydro dams and nuclear power plants.

> *We believe that there's a role for government to play in ensuring and funding [air travel] security in a situation that has transformed what was previously a low profile airline problem into what is a serious national security issue.* **David Paterson**

Intelligence

According to Tony Campbell, a Canadian security analyst, intelligence gathering and analysis are assuming greater importance. He believes that Canada's analytical capability is underfunded (the Canadian Security Intelligence Service (CSIS) has had its budget cut by 28% over the past ten years). Quoted in the October 4 *Ottawa Citizen*, he remarked that analysts are "inundated with the information flow and are having trouble dealing with it all."

One of the tools in collecting and analyzing intelligence is the Communication Security Establishment (CSE). Their specific mandate is to provide specialized security advice and support to government in accordance with emerging requirements. At present, the CSE budget is $107 million. In addition, the department has allocated $24 million over two years in funding to support essential information and technology upgrades.

International security analyst and professor of international history Wesley Wark suggests that CSE "will need more resources and a significant technological upgrade to operate at the same level as its sister organizations, the National Security Agency in the United States and GCHQ [Government

Communications Headquarters] in the United Kingdom. Moreover, CSE needs to rethink its policy of downgrading analytical reporting in favour of high-tech collection. Most significant of all is the question of whether, in the new world we have just entered, CSE will need powers to spy within Canada — something it is now forbidden by law to do."[34]

As part of its response to the September 11 attack, the government has announced increased powers for the CSE, allowing it, with the authorization of the Minister of Defence, to intercept communications between a foreign person and someone in Canada. Currently, the CSE can only listen in on communications outside Canada.

The Committee believes that if Canada's intelligence services are to be called on to do more, they should have additional resources for the task. At the same time, it is important that these additional funds be used in the most effective way possible. In addition to an increase in RCMP and CSIS budgets, the Committee calls upon Canada's security agencies and their partners to look at ways they could make their current practices more effective, focusing especially on the need for better cooperation and coordination. The RCMP should take the lead in this initiative.

Coordination

In order to heighten security effectively, more coordination is needed among Canada's security organizations, from the military, RCMP and CSIS to local and provincial police forces.

According to Douglas Bland, Chair of Defence Resources at Queen's University, "The next-generation national security organization should be built on three premises: (1) Defence and security policy and planning are interwoven activities and operations are more or less continuous; (2) Security issues cannot be separated into domestic and international problems or operations because they flow seamlessly across borders and many jurisdictions; (3) Security operations will routinely bring together the Canadian Armed Forces, police forces, governments at various levels, international organizations, as well as diplomatic, humanitarian, legal, logistical, and intelligence functions."[35]

Bland argues for "a continuously established security mechanism under one minister with requisite authority and clear lines of accountability to formulate and manage a national security policy and to co-ordinate multi-dimensional security operations in Canada and abroad. The Minister must be directed to unite Canada's scattered intelligence organizations, establish a modern national security operations centre, and prepare detailed assessments for Parliament of threats, vulnerabilities, and needed resources. The Minister must then be given resources commensurate with his responsibilities and a trained permanent staff to help manage them."

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34 Wesley Wark, "Beyond Cloaks and Daggers," *Globe and Mail*, 3 October 2001, p. A17.

35 Douglas Bland, "National security is an orphan in the Cabinet," *National Post*, 2 October 2001, p. A16.

Wesley Wark also makes the case for a central intelligence-analysis organization. "At present, the material produced by a tiny cadre of intelligence officers hidden away in the Privy Council Office, however good, lacks influence."

The federal government is now moving in these directions, although not necessarily in the way envisaged by Professor Wark. The Hon. John Manley has been given an oversight and co-ordination role and he has expressed interest in establishing a foreign security agency.

Infrastructure

Responding to possible domestic terrorist attacks is another area in which we believe the government should concentrate. To this end, we acknowledge the formation in February 2001 of the Office of Critical Infrastructure Protection Emergency Preparedness (OCIPEP). OCIPEP was created to better prepare Canada to respond to the challenges posed by asymmetric threats.[36] Encompassing the function of the former Emergency Preparedness Canada, OCIPEP's job is to provide national leadership on the issue of critical infrastructure protection, in collaboration with federal and provincial departments and agencies and in partnership with the private sector. Its mission is to promote the safety and economic security of Canadians by enhancing the capacity of individuals, communities, businesses and governments to effectively manage risks to their physical and cyber environment. Its budget is $24 million.

The nature of the terrorist threat also calls for a refocusing of how and who responds to terrorist attacks. Attacks of urban terrorism involving biological or chemical agents, and weapons of mass destruction, place municipal and provincial workers, like firefighters and police officers, on the front lines. In its all-too-prescient brief to the Committee (submitted 8 August), the Canadian Association of Fire Chiefs remarked that "in the early hours following a terrorist attack, municipal emergency responders (fire, police, ambulance, medical) will have to address the results of the attack without any substantial outside assistance." They recommend that the forthcoming budget contain funding and support for the Canadian Fire Services to enable appropriate preparation for and response to acts of terrorism.

It is an open question as to whether Canada's municipal forces are sufficiently prepared to deal with a terrorist attack, and as terrorism falls under the scope of national security, the Committee believes the government has a role to play in assuring their readiness. As we note in the "Government Actions to Date" section, the government has already made a contribution to first-responder emergency preparedness. With that in mind, **we echo the recommendation of the Canadian Association of Fire Chiefs to provide more resources to aid in the training of municipal first responders, and recommend that the government work with the provinces and**

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36 Asymmetric threats refer to the use of unconventional tactics to counter the overwhelming conventional military superiority of an adversary, such as the September 11 attacks.

municipalities to assure that Canada's first responders to terrorist attacks and the medical community are sufficiently prepared to cope with such an emergency.

National Defence

The Finance Committee has had a long-standing interest in the financial health and viability of Canada's armed forces. In *New Era, New Plan*, the Finance Committee's 1999 Pre-Budget Consultation report, the Committee remarked that Canada's military, as a result of increased commitments and decreasing resources, "have increasing difficulty in keeping pace with new military technology. As a strong supporter of the United Nations, and given our long tradition of peacekeeping missions, further demands are likely to be placed on the Canadian Armed Forces."

The Committee recognized then that budgetary reductions were "posing a challenge to our commitment to our allies and United Nations peacekeeping missions." In its recommendation, the Committee wrote:

"The Committee supports Canada's military, its traditions and its role in promoting peace and security. This role should be supported with appropriate levels of funding. The Committee requests that the Government of Canada embark upon a five-year plan for the revitalization and modernization of the Canadian Forces, which would significantly increase the budget of the Department of National Defence as a percentage of GDP."

The government responded to the Committee's recommendation by providing in its 2000 Budget an increase of $2.3 billion through 2002-3, and the Defence Minister says the government has provided the Department of National Defence (DND) with $3 billion over the last three years.

According to the Conference of Defence Associations (CDA), Canada continues to underfund its military. In *Caught in the Middle: An Assessment of the Operational Readiness of the Canadian Forces*, a report concluded before the September attack, the CDA found that "a significant portion of the DND budget was not available for expenditure on military capabilities. Moreover, Canada spends only $265 per capita on defence. The NATO average is $589. The study concluded that, notwithstanding recent increases, an additional $1 billion per annum needs to be added to the DND budget merely to check the decline of the Canadian Forces." Furthermore, the Canadian Forces "currently inhabit the worst of two worlds: conventional military capabilities are in decline; and, new capabilities are unaffordable.

"In terms of the three basic commitments stated in the 1994 Defence *White Paper*, the protection of Canada role is still viable, but in a reduced fashion. The cooperation in the defence of North America role with the United States presents serious shortfalls in relation to all three services. However, it is in relation to the contributing to international security commitment that the most telling weaknesses appear. Canada can now contribute only token forces to NATO, United Nations, and coalition operations. Recent examples in the Balkans, Eritrea and East Timor prove the point."

Caught in the Middle was completed before September 11. The Committee believes its conclusions are even more valid in light of the new demands that will be placed on our forces. The Committee further believes that Canada faces an additional challenge to assure that our armed forces remain relevant to our allies by further embracing the latest technology, and reshaping our forces in order to deal with such issues as cyberterrorism, nuclear, biological and chemical warfare, and counterterrorism. Before the Committee, National Defence Minister Art Eggleton remarked that we already have some of the pieces in place, such as the Joint Task Force 2 commando unit, and the Nuclear Biological and Chemical (NBC) teaching unit at CFB Borden. "Those are all areas that are under consideration and we are currently fleshing out and reviewing plans with respect to them."

Minister Eggleton told the Committee that even before September 11 the government is in the midst of upgrading its forces, and reviewing the 1994 Defence *White Paper*.

According to the Minister, "Obviously, the answers to the current crisis are not all on the table at this point. Therefore, what we need to do, and what we are preparing to do, is conduct a government-wide analysis of the way ahead, an analysis that will include all departments and agencies that work to ensure the safety and security of Canadians. I can assure you that the Department of Defence, as a key instrument of domestic security, will be an integral part of that careful and balanced assessment. In the end our response will require hard choices. It will also require more funding, not only on the part of my department, but on the part of all Canadians."

Canada's commitment to the American-led engagement against Osama bin Laden's forces and supporters represents a major proportion of our fighting capabilities (see "Government Actions to Date" section). Despite this commitment, the expected performance of some of our committed hardware is in doubt as a result of insufficient equipment upgrades in the past. A serious commitment to this military endeavour will entail significant costs.

The House of Commons Standing Committee on National Defence and Veterans Affairs came to a similar conclusion in its November 2001 Interim Report, *State of Readiness of the Canadian Forces: Response to the Terrorist Threat*. This report raises grave concerns about the readiness of the Canadian military. "The committee has repeatedly heard testimony that today's army could not mount a full brigade. Indeed, some have argued that even if all Canadian troops serving abroad were brought home, Canada would still be unable to meet the commitments set out in the 1994 Defence *White Paper*."

The Finance Committee agrees with the Defence Minister that new funds will be needed. Spending on new security requirements should not be allowed to derail the achievements of past budgets, such as debt reduction, a five-year tax reduction plan and re-investment in health care. As we have already suggested, the government should look to finance much of this, where possible, from already-existing programs.

The ultimate cost of this new kind of war is highly uncertain. While continuing to recognize the need for new financing, as stated above, we believe

that a redirection of funds toward activities that are more appropriate to today's world is also necessary.

The Committee recognizes that improving our defence and security infrastructure is not a job that can be done overnight. This project will take several years. We therefore call on the government to treat national security as a serious, long-term project.

The Committee recommends a fast-tracking of the review of the 1994 Defence *White Paper* to determine its continued relevance, an acceleration of the replacement of out of date equipment, and additional funds to DND.

> *I think I have indicated on a number of occasions that I will need more dollars, but I think we also have an obligation to make the organization as efficient and effective as we possibly can.* **Hon. Art Eggleton**

> *We have a counter-terrorism plan in this country … . We have to continue to improve upon that plan, but there are no quick fixes.* **Hon. Art Eggleton**

North American Security

Enhancing security is not something Canada can, or should, do alone. It is something that draws us into a common cause and natural co-operation with the United States, because we stand for the same basic ideals as do Americans. Also because the United States is going to undertake a variety of initiatives designed to enhance their security. They could take these decisions unilaterally, considering only their own needs. Or they could take those actions bilaterally, with Canada, so as to benefit all North Americans.

The security of the U.S. mainland will be their paramount consideration. Canada's economic well-being depends to a large extent on the U.S. market. How, then, will Canada be affected by the United State's newfound need for continental security, and what can Canada do to deal with U.S. concerns? As David Stewart-Paterson remarked in a 1999 roundtable on Canada-U.S. bilateral relations, "The defence and security issues highlight the need for early and serious bilateral discussions on the question in principle of whether Canada wants to be inside or outside the American tent."[37]

Canada and the United States have always shared some common security concerns. In 1940, President Roosevelt and Prime Minister Mackenzie King signed the Ogdensburg Agreement, which acknowledged the indivisible nature of continental security and pledged mutual assistance in the event of hostilities. The United States pledged not to stand by if Canada were attacked and Canada pledged not to allow our country to be used as a base of attack on the U.S. Since

> *Finally, we are encouraging the government to reinforce the importance of the North American continental perimeter, not only because of the issues that have arisen in the last year or so with respect to the international traffic and arms regulations but also because it's a privileged trading partner of ours, and we need to ensure that we have that border as an ally, both economically and for security purposes."*
>
> **Peter Smith, Aerospace Industries Association of Canada**

37 Michael Hart, "Round Table on Canada-U.S. Free Trade: Is it Time for Round Two?" *Canadian Foreign Policy*, spring 2000, p. 2.

then, Canada-U.S. defence cooperation has persisted through more than five decades of evolving challenges. The North American Air Defence system of early warning stations was one example of this co-operation. The events of September 11 are going to force us to take a serious look at some major security issues in a very short period of time.

Keeping the border open is the greatest immediate economic challenge facing Canada. One-third of our GDP is the direct result of exports to the United States. Seventy per cent of this moves by truck, the mode of transportation most adversely affected by any border obstructions. Much of that trade is with firms that rely on just-in-time inventory systems to keep production costs low. If Canada is to continue to be an attractive place to invest, firms must continue to have confidence that the border will not be a barrier to the timely and efficient flow of commerce.

A joint approach to border security means that the border remains open to business but closed to terror.

Minister of International Trade Pierre Pettigrew

Unfortunately for Canada, the United States now has a different set of incentives regarding the border than we do. Clearly, the United States is the more likely of the two countries to be a target of terrorist attacks. That country has an incentive to make the border more secure. Canada, on the other hand, has a much greater economic incentive to open up the border, as we are much more dependent upon trade for our prosperity. Canadians and Americans might place different levels of importance on security and economy when it comes to the border, but it must be said that the border's economic and security roles are important to both Canadians and Americans. Canada is not served at all by an insecure America, and the United States does not benefit by complicating trade with its largest trading partner.

From an economic point of view, Canada's response to the September 11 attacks and the need for increased security should have three goals: (1) restoring confidence to consumers, businesses and investors; (2) keeping the Canada-U.S. border open for trade; and (3) strengthening Canada's position as a good place to invest.

The Economic Perspective on September 11

Business Confidence

What is at stake here is an ongoing loss from business and tourist travel to Canada from the United States, but also the potential loss of manufacturing and future investment if inventories and legitimate business travel cannot proceed across the border with ease.

Nancy Hughes Anthony, Canadian Chamber of Commerce

One of the benefits for Canada of the North American Free Trade Agreement was that it would make Canada attractive to foreign investors wishing to set up in Canada to serve the North American market. It is important that this type of investor confidence does not become a casualty of September 11. As economist Dale Orr remarked to the Committee, the terrorist attacks and subsequent border closures "sent out a message to people that build plants in Canada," namely, a firm will be subject to more disruptions if it puts a plant in Canada than in the United States, if the goal is to serve the North American market. This occurs because more of total output is going to cross the border and be subject to any adverse border effects. Removing much of that effect was a goal of the Free Trade Agreement.

So that was a very difficult and troublesome message that has gone out to people who are saying to themselves, 'I want to build a plant to serve the North American market, should I put it in Canada or should I put it in the U.S.?' It's a situation that can be very, very expensive for us over the longer term. ... I know the situation is quite a bit better now and hopefully it can stay that way. This is the second source of very troublesome downside risk that the Canadian economy faces at this point in time. **Dale Orr**

On a micro level, confidence and the feeling of safety are essential to the smooth functioning of the economy. Peter Smith (President and Chief Executive Officer, Aerospace Industries Association of Canada) told the Committee about the Catch-22 situation faced by airlines when it comes to security; "You have to build up the confidence of the passenger, and make sure that everything possible is done to improve on the security and give the confidence that is necessary. That creates, obviously, a critical situation with respect to the time delays. Hence, you begin to see such things as corporations putting embargos on commercial air travel for security, time, and cost purposes, but you can also see a tendency toward their using corporate jets to get their executives around."

As Smith's testimony makes clear, ensuring airline security (and security in general) makes sense from an economic as well as a security point of view. According to Anthony P. Pollard (President, Hotel Association of Canada), security of person is essential to the well-being of his and other industries. "The Canadian public must be convinced of their own safety and security, period, end of discussion, *point final*." Mr. Pollard told the Committee that, "Necessary funds must go to the Canada Customs and Revenue Agency, Citizenship and Immigration Canada, Transport Canada, and others. We must enhance our close relationship with the United States while maintaining our values."

The facilitation of the movement of people and goods while ensuring adequate security at the border is the key priority.

Canadian Chamber of Commerce

Keeping the Canada-U.S. Border Open

Keeping the Canada-U.S. border open is vital to our economic prosperity. Canada is a trading country, and our largest trading partner is the United States. We send fully 87% of our exports across the 49th parallel. A third of Canada's GDP is the result of exports to the United States. Canada needs to convince Americans that the border with Canada does not pose a security threat. We need to continually remind Americans that none of the suspected September 11 terrorists entered the United States via Canada.

We believe that now, more than ever, the federal government needs to facilitate an environment for economic growth. This requires a Canada-U.S. border policy that allows Canada to maintain its place in an integrated North American economy, and a fiscal framework that provides consumers and investors with the confidence to keep our industry moving.

Mark Nantais, Canadian Vehicle Manufacturers' Association

The economic integration of our two economies has been underway for some time. More and more, Canadian and U.S. companies straddle the border, locating offices and factories where it makes the most sense for them. According to the U.S. Department of Commerce, approximately 43% of the total trade between the United States and Canada is between related parties. Intra-industry and intra-firm trade has been particularly evident in the automotive industry, which accounts for more than 30% of Canadian exports to the U.S. and about 25% of U.S. exports to Canada.

Determining the effect of border delays on the Canadian economy is

difficult, especially as Canada was already in the midst of an economic slowdown. The Conference Board has forecast that a one percent decline (at annual rates) in exports is likely in the third quarter due to border delays. Even before September 11 it was becoming clear that the ever-increasing amount of cross-border traffic made the border-management status quo unsustainable. There can be no question that a closed border would have a devastating impact on our economy.

Roughly 70% of Canada's merchandise exports to the U.S. travel by truck; these are generally the time sensitive cargo associated with "just-in-time" production techniques that allow firms to operate with reduced inventories, thus reducing costs. For such a system to function in an integrated North American market, Canada requires an open border with the United States. The degree of severity of this issue is driven home by Christopher Sands, an expert on Canada-U.S. relations with the U.S.-based Center for Strategic and International Studies. In a November 1 lecture in Ottawa, he remarked that on September 11, the Canada-U.S. border was closed for only 20 minutes, but in that time 12 auto plants closed for the afternoon and thousands of workers lost pay. Our economy works on an hour-to-hour basis.

Keeping the border open makes clear how economic and security interests are linked. Millions of jobs in Canada and the United States depend upon the efficiency of the border. Efficiency requires that procedures and physical capacity prevent congestion and that security concerns be met so that unnecessary, and unnecessarily lengthy, inspections are avoided. To protect Canada's trade interests and to facilitate the flow of goods and services to the U.S. requires a combination of spending on security and physical infrastructure

Delays in shipments mean increased costs for Canadian firms in terms of higher inventory costs. According to David Bradley (CEO, Canadian Trucking Alliance), "Sectors like automotive, which account for so much of our trade with the Untied States and that rely on just-in-time inventory systems, which is built around the truck, have taken on 5% higher inventories. This is a hard cost and at some point will be taken into account when making investment decisions. And I would say to you that when the current supply contracts come due, they will be taking consideration of the reliability of supply and the impact that the border is having on that. And a 64-cent dollar won't be enough, perhaps, to bail us out this time around."

At the Canada-U.S. border, particularly for surface crossings, we need to take several important steps that will facilitate the flow of high-value low-risk goods, and allow resources to be focused on higher risk activities.

Mark Nantais, Canadian Vehicle Manufacturers' Association

The Conference Board remarks that, "Some truck traffic is being diverted to rail, which is not facing the same delays at the border. Finally, it appears clear that some method of pre-clearance for truck cargoes will be instituted as the economic costs of border delays pile up, not only for Canadian exporters but also for the U.S. customers who are relying on shipments of Canadian goods." Nevertheless, any further security problems have the potential to seriously affect Canada-U.S. trade.

Effective border management continues to be a long-standing preoccupation of the government. In 1995, Canada, the U.S. and Mexico signed the Shared Border Accord, "which established new mechanisms for managing the trans-boundary movement of goods and persons; ... promoting the use of

joint or shared border facilities; and introducing new technologies to detect drugs and to enable remote inspection of travellers."[38]

To highlight one of the many economic measures being undertaken or considered, in October 2000, Transportation Minister David Collenette signed a Memorandum of Cooperation with the then-U.S. Secretary of Transport, Rodney Slater, to strengthen collaboration on surface transportation matters, with the goal of coordinating our efforts and establishing priorities for border projects. In a June 20, 2001, speech to the Canada-U.S. Cross-Border Crime Forum, Solicitor General Lawrence MacAuley remarked that "We now have so many close partnerships it's unprecedented," citing "the many law enforcement investigations, multi-agency task forces or just day-to-day information sharing" on a variety of criminal and security issues. Canada and the U.S. have a history of cooperation. Now, more than even, this spirit of cooperation must continue, in economic and security issues.

According to the *Montreal Gazette*, "many immigration specialists [say] it is often easier for foreigners to obtain visas to enter the U.S. than Canada". Immigration Department data "... reveal that asylum seekers who file their refugee claims upon entering Canada are far more likely to do so after travelling here overland via the U.S. ... . The data reveal that a decade ago, 37% of all asylum seekers who filed claims upon entering Canada did so after travelling here overland through the U.S. By last year, that figure had risen to 63%. When it comes to those who filed refugee claims upon arriving here from countries where bin Laden's organization is active, even higher proportions got here via the U.S. Five years ago, 56% of such asylum seekers got here via the U.S., now that figure had shot up to 72%."[39] It is clearly a mistake to think that Canada is necessarily the weak link in our common security.

With respect to the unfounded allegations of U.S. security concerns, U.S. Treasury Secretary Paul O'Neill said, "We will bring the people who are making (these allegations) to the table and to the physical location where we have border activity and prove to them that they are wrong."

Joint Security Needs

Greater security of our borders is, in and of itself, a laudable goal. Canada may be a target for terrorism, though security experts and the 1999 Report of the Special Senate Committee on Security and Intelligence suggest the probability is low.

The Committee would like to focus on the economic dimension of the border-security issue. As the Committee has noted, Canadian exports to the United States account for a third of our GDP so maintaining an open land border with the U.S. is vital to Canada's well-being. This will require the cooperation of the United States, whose customs officers are responsible for the flow of goods and people into the United States. Already, the United States is increasing the number of customs officers at the border. While increased resources could enhance the free flow of traffic at the border, it could just as likely impede it should they tighten their security procedures. Finance Minister Martin warned against this in a recent speech in Ottawa. "Part of the terrorist

38 Richard Harris, "North American Economic Integration: Issues and Research Agenda," Industry Canada Discussion Paper Number 10, April 2001.

39 Alexander Norris, "A great wall for North America: Canada-U.S. perimeter debated," *Montreal Gazette*, 29 September 2001, p. A1.

agenda is to see governments turn borders into barriers — to erect walls behind which people live in fear and economies stagnate." Thus Canada must undertake actions that instil confidence in the security of the border with Canada.

According to Treasury Secretary Paul O'Neill, the U.S. government "has agreed to spend whatever it takes to overhaul customs and security procedures to end the border line-ups caused by increased security since September 11."

In our view, we must maintain American confidence in Canadian screening procedures. One approach is outer border security. The concept is vague at the moment, but one can think of it as any approach that produces equal levels of security for people or cargo entering North America, whether by sea at Halifax or by air at Los Angeles, so that all North Americans are confident that any Canadian port of entry poses no greater risk than any American port of entry. What matters is not the methods or techniques used to achieve equal levels of security but the results, a security equivalent of total quality management. From an economic perspective, more stringent checks at North American airports and seaports will allow for greater ease of movement at the internal Canada-U.S. border.

The Committee believes that Canada can tighten its border security by being more vigilant in our security checks, possibly through more extensive use of technology. Such a plan would not erase the border so much as it would improve its efficient functioning. The personnel of Canada Customs and Revenue Agency and Immigration and Citizenship Canada are performing their duties well, but it is essential that they receive the tools, the personnel and the funds needed to tighten our border security. Witnesses appearing before the Committee suggested that a greater reliance on technology could be one way in which Canada could run the border more efficiently, as well as greater use of pre-clearance.

There exist several options available for expediting travel between our two countries, including greater use of pre-clearance. Serge Charette (National President, Customs Excise Union) recommended to the Committee "the introduction of special lanes that would be identified for Canadian residents returning to Canada, perhaps even North American residents returning to North America, and lanes basically that would deal more specifically with passports and immigration issues, things like that. We could ensure that the individuals manning those particular booths or entry points had more training in those areas and were well equipped to deal with those specific concerns."

Because of the importance of an efficiently functioning border to the economic well-being of Canadians, and recognizing the United States' legitimate security concerns, the Committee recommends that the government undertake the necessary improvements in our border, customs and immigration procedures to safeguard Canada's vital economic interests. As well, the Committee recommends that infrastructure investments be made to facilitate the flow of goods and people across the border. This would protect our commercial interests while at the same time allowing new security-related procedures to work effectively.

Government Actions to Date

While the Committee expects and calls for continued attention, we commend the government for its response so far to the September 11 tragedy. The government's response has, appropriately, involved both legislative actions and spending initiatives.

Spending

While the final shape of new government spending on national security remains unclear, the government has already announced an initial $280 million in new spending as part of its Anti-Terrorism Plan. This plan brings to $1.8 billion the amount the Government of Canada has invested in policing, security and intelligence since Budget 2000.

The new spending includes the following.

$54 million in new measures to strengthen Canada's ability to prevent, detect and respond to existing and emerging national security threats. These measures include the following:

- **$35 million** to enhance analytical, intelligence sharing, and operational technical support such as high tech crime forensics.
- **$5 million** to the protection of designated persons and sites in Canada. This is in addition to the recent redeployment of 2,000 RCMP officers to national security duties.
- **$4.9 million** to the Department of the Solicitor General for enhancements to the Canada Public Safety Information Network (CPSIN) which will link criminal justice agencies and other agencies across Canada, and the Counter-Terrorism Operational Readiness Program, to help increase local, regional and national organizations' state of readiness against attacks.
- **$9 million** will go to immediate staffing requirements in priority areas to provide a greater capacity for coordinated law enforcement responses and targetting of cross-border criminal activity, including staffing for:
  - Integrated National Security Enforcement Teams (INSETs) to collect, share and analyze information and to create enhanced enforcement capacity; and,
  - Integrated Border Enforcement Teams (IBETS) to enhance border integrity.

Some **$10.25 million** has been allocated to enhance security activities at airports. This includes funding for:

- New equipment to be used by the RCMP at airports, major centres, ports and border crossings;

- The purchase of fingerprint card conversion technology to upgrade the Canadian Criminal Records System; and,
- RCMP Emergency Response Team to undertake tactical response capabilities.

On the immigration side, the government has announced **$49 million** to accelerate work on a five-part security strategy for Canada's Citizenship and Immigration system. These measures include:

- Around **$18 million** for new, high-tech identity cards to Canada's landed immigrants. The plastic, photo-ID card — similar to a driver's licence or health card — will replace the paper document now issued to all of Canada's landed immigrants, also known as permanent residents. This secure proof of status will facilitate international travel, as well as access to services in Canada. The House of Commons Standing Committee on Human Resources Development has earlier examined the issues of "smart" SIN (Social Insurance Number) cards, in particular their use as a potential national identity card. The lessons learned from that investigation could provide a model for secure proof of status cards for new immigrants. Targeted completion time: June 2002. The program will likely cost between $5 million and $10 million a year to administer. **The Committee recommends that the government implement effective measures to protect against identity fraud; these measures should be consistent with the aims of recommendations 8 and 14 of the unanimous report of the Human Resources Development Committee in respect of the social insurance number system dated May 1999**.
- Increasing front end security screening for refugee claimants.
- Increasing Canada's detention capacity.
- Increasing Canada's deportation activity.
- Hiring new staff to enforce upgraded security at ports of entry.

Additional resources, including **$9 million** for additional employees, are being assigned to key enforcement activities, such as examination and security screening at ports of entry, more detailed screening of refugee claimants already in Canada, and increased detention and deportation.

Almost **$91 million** for new equipment and supporting activities at Canadian airports, ensuring that Canada's aviation system remains among the safest in the world.

- **$55.7 million** for the purchase of advanced explosives detection systems (EDS) and related state-of-the-art electronic security capabilities for Canadian airports.
- **More than $3 million** to deploy 27 additional airport security inspectors across Canada, to strengthen regulatory capacity for responding to new and emerging security threats and to support the implementation of new technologies through employee training programs.

- **$750,000** for an analysis of advanced and evolving security practices and technologies for airport security operations, including the use of various technologies such as biometrics.
- **$6 million** for leading-edge technology and information systems to better connect front-line officers to Customs data banks and those of other law-enforcement agencies, both foreign and domestic.
- **$6 million** for technology such as x-ray machines to facilitate better screening of goods.
- **$9 million** for 130 additional customs officers, mainly at seaports and airports.
- **$8 million** for new equipment such as scanning units for use by the RCMP at airports, border crossings, ports and offices for the electronic transmission and analysis of fingerprints, palmprints and photographs.
- **$1.5 million** for the purchase of fingerprint card conversion technology to upgrade the Canadian Criminal Records System.
- An investment of **$770,000** to increase the ability of the RCMP Emergency Response Team to undertake tactical response capabilities.

In addition, **$12 million** is being allocated annually to the Canada Customs and Revenue Agency and Transport Canada to meet staffing requirements related to public security and anti-terrorism programs.

Out of the **$280 million** total, $37 million will go to the Communications Security Establishment (CSE). This money will boost CSE's budget, now $106 million a year, by roughly a third. These funds include:

- **$26 million** to upgrade information technology
- **$6 million** to support research and development; and
- **$5 million** for equipment to counter cyber threats.

Some **$10 million** will go to CSIS to upgrade special equipment and increase its investigative and analytical capacity.

Finally, it should be noted that of the $280 million, **$64 million** dollars was allocated to the RCMP.

Further Spending Measures

On top of this amount, the government has also announced the following:

An additional **$10 million** will be provided this year to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). FINTRAC was established in July 2000 with a mandate to collect, analyze, assess and disclose information in order to assist in the detection, prevention and deterrence of money laundering. It operates at arm's length from law enforcement agencies. On November 8, 2001, it began to receive suspicious transaction reports from financial institutions and intermediaries, analyze the reported information, and disclose suspicions of money laundering to police

authorities and others under the *Proceeds of Crime (Money Laundering) Act*. Bill C-36 also proposes expanding FINTRAC's mandate.

$16 million to help respond to the emerging needs of Afghan refugees and internally displaced people in the region. This includes:

- **$1.5 million** for food aid;
- **$1.5 million** for the International Committee of the Red Cross;
- **$1.2 million** for the United Nations High Commission for Refugees;
- **$500,000** for CARE Canada; and,
- **$300,000** for the United Nations Office for the Coordination of Humanitarian Affairs.

$160 million to the airline industry as compensation for the September 11 grounding of aircraft, $105 million of which went to Air Canada. The balance was shared among the competing airlines.

A loan guarantee of up to $75 million to respond to the cash flow problems being experienced by Canada 3000, Canada's second largest airline and a critical competitor in Canada's air industry.[40]

$20 million to the Canadian Tourism Commission to deal with September 11-related effects in the tourism industry. Of this total, $12 million will be targeted to US near-border states.

> *We support the government's just-announced $20 million to the Canadian Tourism Commission, as a one-time fee to promote travel in Canada and from close border states into Canada.* **Randall M. Williams, President, Association of Canadian Travel Agents**

In response to the possibility of biological warfare, the government has also announced **$11.59 million** for initiatives designed to improve the health security of Canadians. This amount includes:

- **$5.62 million** to buy antibiotics to treat people exposed to biological agents such as anthrax and chemical antidotes for those who have been exposed to chemicals or gases. These purchases will increase the existing stock of pharmaceuticals in the National Emergency Stockpile System;
- **$2.24 million** to purchase sensors and detection equipment for key locations across Canada and establish a database of information which will provide improved responses to radio-nuclear terrorist incidents;
- **$2.12 million** to enhance a Canada-wide network of laboratories and better equip them with the necessary materials to quickly diagnose biological agents; and

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40 So far, Canada 3000 has been unable to make use of the loan guarantee. With its recent bankruptcy filing, the status of the loan guarantee is further cast in doubt.

- **$1.61 million** to provide emergency response training for front-line emergency response staff in order that they might better recognize, diagnose and treat suspicious illnesses resulting from a terrorist incident.

Legislative

While the government's anti-terrorism legislative agenda is not yet complete, the government's main legislative initiative to date is Bill C-36, the *Anti-Terrorism Act*, which, once enacted, would amend several other bills and institute sweeping changes to Canada's justice system. The proposed law:

- Defines, for the first time, "terrorist activity."
- Creates a list of terrorist groups as compiled by the federal cabinet. Participating in or raising funds for a listed group would be illegal. The list must be reviewed every two years by the Solicitor General.
- Establishes sentences of up to life in prison for instructing anyone to carry out a terrorist activity; up to 14 years for facilitating terrorist activities; up to 10 years for participation in an activity of a terrorist group; up to 10 years for harbouring terrorists or raising money for terrorists. Allows for consecutive sentencing for terrorist offences. An offender convicted of any indictable offence that is also a terrorist activity would be liable to life imprisonment.
- People convicted of terrorist crimes would be eligible for release only after serving half their sentence, up from the usual third.
- Allows police to carry out "preventive arrests" against people who they think are about to commit a terrorist act. The person would be brought before a judge within 24 hours, and could be detained for a maximum of 72 hours. The Attorney General of Canada, and those of the provinces, as well as the Solicitor General of Canada and the ministers responsible for policing the provinces would be required to report publicly once a year on the exercise of preventive arrests that took place under their jurisdiction.
- Permits "investigative hearings," by which police could compel someone with information on a terrorist activity to appear before a judge and answer questions. The Attorney General of Canada, and those of the provinces, as well as the Solicitor General of Canada and the ministers responsible for policing the provinces would be required to report publicly once a year on the exercise of investigative hearings that took place under their jurisdiction. Both the investigative hearings and preventive arrests sections of Bill C-36 would be subject to a five-year sunset clause, subject to a vote of the House of Commons and the Senate to renew these sections.
- Allows police to obtain one-year surveillance warrants on suspected terrorists, up from 60 days. The requirement to notify a target after surveillance has taken place could be delayed for up to three years.
- Makes it easier for police to obtain warrants for wiretaps.

- Increases the powers of the Communications Security Establishment, allowing it to intercept communications involving Canadians.
- Creates a review mechanism by which listed groups could appeal their inclusion to the Solicitor General. The list of terrorist groups would be reviewed every two years.
- Makes it easier to remove or deny charitable status to those who support terrorist groups under the *Income Tax Act*.
- Toughens measures against hate crimes. Creates an offence with a maximum 10-year prison sentence for mischief in relation to religious property. It would also be easier to remove hate propaganda from the Internet.
- Amends the *Official Secrets Act* to take into account new computer technologies and fighting intelligence-gathering activities by foreign powers and terrorist groups.
- Amends the *Canada Evidence Act* to protect information obtained by foreign intelligence agencies, when used in a Canadian court.
- Amends the *Proceeds of Crime (money laundering) Act* to authorize the Financial Transactions and Reports and Analysis Centre (FINTRAC) to detect financial transactions that may constitute threats to the security of Canada and to disclose this information to CSIS.
- Amends the *Firearms Act* to allow armed air marshals, mainly from the United States, to fly into Canada.
- Extends the DNA warrant scheme and data bank to include terrorist offences.
- Imposes a review of the legislation in three years.

On October 25, Parliament passed Bill S-23, *An Act to amend the Customs Act and to make related amendments to other Acts*. Though it was introduced in the Senate far in advance of September 11 attacks, it contains important measures for strengthening Canada's monitoring capacity at the border.

Just as it is for the legitimate economy, financing is the lifeblood of terrorist organizations. Cutting off terrorists' access to financing weakens their organizations. On October 2, Finance Minister Paul Martin and Foreign Affairs Minister John Manley implemented tough new regulations aimed at suppressing the financing in Canada of terrorism. The regulations establish a list of any persons and organizations that have committed, attempted to commit or participated in a terrorist act or facilitated the commission of a terrorist act, freezes the assets of these listed groups and organizations, prohibits them from fundraising, and requires persons and financial institutions to report any dealings with the assets of the listed groups or organizations. These regulations implement a key measure in United Nations Resolution 1373, which was unanimously adopted by the UN Security Council on September 28, 2001. Finance Minister Paul Martin also said the federal government has frozen assets worth $150,000 so far in its efforts to choke off the financing network of terrorist networks.

These regulations complement the already established FINTRAC, which is designed to track money laundering. The size of the money laundering problem in Canada is estimated to be anywhere between $5 billion and $17 billion per year.

There's also a need, at this time, to include, in the government's plans, a clear focus on issues relating to managing efficiently the Canada-U.S. border. I cannot stress enough how important and indeed, how critical, this issue is for our members, and not just for those who reside in border communities, but for the economy as a whole. What is at stake here is an ongoing loss from business and tourist travel to Canada from the United States, but also the potential loss of manufacturing and future investment if inventories and legitimate business travel cannot proceed across the border with ease.

Nancy Hughes Anthony, Canadian Chamber of Commerce

Military

In support of the U.S. campaign against terrorism, the government has committed 2,000 forces (including a small contingent from Joint Task Force 2, our anti-terrorism specialists), six ships and six aircraft to the Middle East. This represents the largest deployment of Canadian forces since the Korean War.

As well, CF-18 fighter jets are patrolling the skies around major population centres to enforce a warning that pilots must not deviate from their flight plans, and, according to media reports, CSIS agents are already working at Pearson Airport to prevent terrorists from entering the country. Intelligence officials are also working at border crossings in Niagara Falls and Windsor and hope to expand their presence to every airport and border crossing in the country. Canada also is experimenting with efforts to place officials in overseas airports to screen would-be refugee claimants for false documents.

Border Management Options: It's All About Efficiency

The immediate concern for Canada is to ensure the free flow of goods and services across the Canadian-American border, in a timely and predictable fashion. The success of the NAFTA was straining the capacity of the border well before September 11. Two-thirds of the goods traded between Canada and the United States pass through southern Ontario crossings with the Ambassador Bridge in Windsor being Canada's major trade portal. These points have already been subject to congestion due to heavy volumes and old and inadequate infrastructure. Congestion is also due to inefficient processes. For example, 20% of the trucks crossing the border are empty and a system of pre-clearance could speed up traffic significantly.[41] Similarly, the use of transponders and other high-tech devices could allow high-volume and low-risk shippers to move quickly across the border.

Global economic integration and competition requires a seamless border as the foundation of the economic vitality of the world's two largest trading partners.

Minister of International Trade Pierre Pettigrew

These measures undoubtedly could play an important role in speeding up border crossings while maintaining security. Nevertheless, border infrastructure and border corridors leading to and from those crossing points are at least as important. Forty percent of trade passes through Windsor or Sarnia, while another third passes through the Niagara region. These small numbers of crossings see very large volumes of traffic (40 million crossings through the Detroit port of entry, another 30 million through Buffalo and 20 million through Seattle). It is easy for congestion to arise, especially as the border facilities are old (30 years at Windsor-Detroit) and the highways (I-94 at Detroit) are crumbling. As the Canadian Trucking Alliance's David Bradley told the Committee, these are the new rivers of trade. It is vital that they continue to be free flowing.

From my time as an industrialist, I never thought that your borders were too porous. As a matter of fact, I hungered for quicker transactions between our countries.

U.S. Treasury Secretary Paul O'Neill

41 At certain crossings almost one-half of trucks are returning with empty loads.

Thus there are two basic ways to deal with border congestion. One is to build better infrastructure, roads to the border, and border crossings such as bridges and tunnels. The other is to make the process of clearing the border more efficient.

While free-trade proponents highlight the tariff-reducing benefits of such agreements, there are other significant border costs. According to the Conference Board of Canada, "Even before September 11, the average non-tariff border cost could represent approximately 5% of the final invoice price of a given product and for more trade-sensitive industries the cost could be as high as 10-13%."[42] In recognition of this, Canadian and American officials have "agreed to work on a 'concrete' plan of action that will see border traffic return to — and improve upon — the levels seen before September 11."[43]

The Canada Customs and Revenue Agency (CCRA) has made available some recent statistics regarding delays at select border crossings in the days just after the terrorist attacks, both into Canada and into the United States. According to the CCRA, wait delays of 30 minutes or less are considered normal for entry into Canada — no comparable normal delay is provided for entry into the United States. The case of the Windsor Bridge crossing is instructive as it is a vital crossing point for the auto industry.

While the length of the reported delays has been disputed by some, the data presented by CCRA clearly show a significant difference with respect to commercial traffic entering the United States and commercial traffic entering Canada. There are more instances of delays entering the U.S. than Canada, and they are far more extreme. The evidence shows that Canadian "delays" were generally within the normal length of 30 minutes or less. American delays of four and five hours were recorded over the same period (September 13 to September 22). Delays in excess of one hour occurred several times. In addition, there rarely appears to be a common thread explaining delays on both sides of the border. Instead, they are likely explained by unilateral and unpredictable security alerts. Any Canadian plant trying to deliver goods in a timely fashion, under a tight schedule, will face enormous challenges and higher costs getting across the American border.

Roughly 70% of Canada's merchandise exports to the U.S. travel by truck and these are generally the time sensitive cargo associated with "just-in-time" production techniques. For such a system to function in an integrated North American market, Canada requires an open border with the United States.

Christopher Sands suggests that what the United States wants from Canada is a major contribution to North American security. The American public has become so fixated on the terror attacks that they judge politicians by their responses to that event and tend to support any security measure, whether good or bad. Canada needs to be pro-active in initiating measures that enhance North American security or face politically motivated initiatives that blame Canada

42 Andrew Shea, "Border Choices — Balancing the Need for Security and Trade," Special Report, Conference Board of Canada, October 2001, p. 2.

43 Terry Weber, "Canada, U.S. vow action on border," *Globe and Mail*, 16 November 2001.

and impede border crossings. U.S. Treasury Secretary Paul O'Neill noted that the Canada — U.S. border plan will "… attempt to separate valid complaints from vague accusations."[44]

Canada has already undertaken a number of measures, such as Bill S-23, to improve border efficiency, while at the same time improving security. According to David Bradley, "we believe that Canada has something to offer in this regard and I'm not sure that we have to spend all kinds of money. One area where Canada has excelled is in terms of the automation of our customs processes … . We've done a very good job of making it easier for you as imports to get into Canada." Border delays are a bigger problem going into the United States than coming into Canada. It would be beneficial to disseminate to Americans our accomplishments, to show them our techniques and to convince them of the security that it provides.

If Canada does not demonstrate that it is taking every measure possible to help make North America safe, we face the threat of continued, and even increased, rigorous and slow border crossing procedures by American authorities."

Nancy Hughes Anthony, Canadian Chamber of Commerce

What we need to do is to work with our American partners. Their security concerns are not new. If we weren't aware of them, we certainly are aware of them now. What we need to do on an urgent basis and in an unambiguous fashion sit down in bilateral discussions with them to develop the customs systems going forward. And again I think that Canada has something to offer.

Bill S-23 … talks about electronic pre-clearance. It talks about registration electronically of drivers of companies and of importers. That sounds like security to me. Perhaps we need to repackage it and bring it to our American trading partners. But most importantly we need a bilateral approach and we're starting to see some of that now but so far many of the initiatives and many of them good ones have been more or less unilateral. We've got to get face to face with our partners. **David Bradley**

44 T. Weber, "Canada, U.S. vow action on border, *Globe and Mail*, 16 September 2001.

Canada-United States Accord on Our Shared Border

In February 1995, Canada and the United States announced an accord on the shared border, designed to manage the border efficiently while improving security. The management of the border was based on principles of co-operation and co-ordination.

Both governments committed to promoting trade, facilitating the movement of people, enhancing protection and reducing costs to governments and the public. As well, they committed to modernizing facilities, addressing mutual threats and efficiently managing increasing volumes, governed by certain guiding principles. These include:

> "…streamlining and harmonizing border policies and management, expanding cooperation at and beyond the border, and collaborating on common threats outside the United States and Canada."[45]

Some of the Accord's initiatives include:

Process: The Commercial Vehicle Process System established on the Canadian side of the Peace Bridge in 1999 to distinguish between prepared and unprepared carriers heading to the United States. It is a traffic control measure designed reduce congestion caused by carriers who have not properly compiled their paperwork.

Infrastructure: Joint border facilities that are state of the art

Process: The In-Transit Highway Simplification Project that halves the number of stops that truckers must make in crossing the border.

Security: the joint development and use of high-tech methods of spotting contraband, including vapour detection techniques, potassium-based detectors, x-ray systems, infrared imaging and ultrasound detection.

Process and Infrastructure: CANPASS, PORTPASS and NEXUS systems that allow pre-screened and low-risk travellers to use dedicated lanes and modern technology (licence plate readers, identification cards and proximity cards) to permit speedy border crossings.

45 Canada-United States Accord on Our Shared Border, Update 2000, Government of Canada, 2000, p. 5.

Possible Steps to a More Efficient Canada-U.S. Border

In general, the border could be made more efficient by using better screening to assess risk and direct appropriate resources where they are needed. Priority should be given to the following stages of assessment and interdiction.

Priority 1: assess risks and prevent entry into North America of undesirable traffic. This is done outside of North America.

Priority 2: assess risk and take appropriate action at the first point of entry into North America. This process would take place at major airports and seaports.

Priority 3: assess risk and take appropriate action at the Canadian — American border.

If sufficient resources are allocated, and effectively deployed, to the first two priority areas, few resources would be needed at the border and little in the way of assessment and inspection services would be required.

Process Options

- Sort low-risk from high-risk traffic as early as possible in the border-crossing process.

- For very low-risk traffic, inspections could take place at point of loading, with containers sealed thereafter. Where cross-border movements constitute intra-firm shipments, security arrangements could be established within the firms in question to obtain pre-clearance at point of departure. The auto industry would be a perfect test subject.

- Move inspection activities away from the physical border to the first point of convenience.

- Use technology to pre-clear low-risk traffic when possible. NEXUS is a joint Canadian-American pilot project that has been put on hold as of 11 September. CANPASS is a purely Canadian pre-clearance program, also on hold. NEXUS is preferred by many border organizations because it holds the promise of a single pre-clearance mechanism for border crossings, using common eligibility criteria.

Infrastructure Options

- Improve transportation corridors to and from border crossing points.

- Provide dedicated lanes for frequent and low-risk traffic such as commuters and other frequent travellers. The least prepared carrier should not be able to delay pre-cleared vehicles. Upgrade crossing points consistent with new security concerns and border management processes.

- Deploy state of the art scanning technology such as gamma ray screening.

Canada-United States Co-operation

- Undertake risk assessment and interception offshore, in collaboration with American authorities by sharing information on a real time basis. This could be extended to the sharing of facilities and staff.

- Create unified ports of entry, staffed jointly by American and Canadian officials. Approximately two-thirds of the goods arriving at Canadian seaports is in transit to the United States.

- Let Canadian and American officials co-operate in pre-screening foreign nationals.

- A border security deal could be negotiated to create an outer limit security zone.

- A central database could share immigration and intelligence information.

Such an approach would be consistent with what is identified as priorities 1 and 2 above. Starting with the initial application to come to Canada, risks would be assessed at the various control points along the route to North America.

Canadian and American officials should meet regularly to monitor the efficiency and security of the Canada-United States border.

Promoting Prosperity: Opening the Dialogue on the Canada-United States Economic Relationship

Border efficiency is not the only economic issue between Canada and the United States. The terrorist attacks of September 11 have generated a new urgency with respect to a wide range of Canadian-American relations. On a personal level, all the witnesses we met over the course of our pre-budget consultations were horrified by the attacks. To a person, everyone sensed that something important changed that day, and that the ramifications for Canada-U.S. relations would be multifaceted and significant.

On the surface, the debate has been over a possible "Canadian connection" to the attacks, over such issues as border security, immigration and refugee policy, as well as the economic cost of long waits at the border to satisfy American security concerns. However, we believe that these issues are only part of the much larger issue: The United States is in the midst of redefining its relationship with North America (including and, it could be argued, especially Canada) and the world.

The Canada-U.S. relationship is varied and complex, involving issues like security, culture and economics. The Committee believes that the events of September 11 will force Canadians to reconsider all our assumptions about our relationship with the United States, and that a dialogue and study on this topic is vital, lest we be overtaken by events. As a Finance Committee, we wish to concentrate our thoughts on the economic dimension of September 11; in particular, the fact that the fallout from the terrorist attacks has focused our attention on the implications of the Canada-U.S. border and the broader Canada-U.S. economic relationship.

In order to come to terms with the events of September 11, we believe it is necessary to study the entirety of this important relationship. Where should we be heading? What, post-September 11, is possible? These are the tough but necessary questions if we are to redefine the Canada-U.S. economic relationship.

Border management is a crucial part of the Canada-U.S. relationship, but, ultimately, the relationship is about more than simply a border. Economic integration and the changes that come with it require Canadians to examine their country's broader relationship with the United States, where the relationship is headed, and the issues that lie ahead. It is critical that Canada not be hesitant to consider current and future border management ideas (such as a customs union) in the context of the larger Canada-U.S. relationship.

Canadian Chamber of Commerce

On the other hand, major disputes, such as that over softwood lumber, continue, and the very degree of integration has encouraged complacency, not just in government circles, but in business circles as well. The huge lineups at the border following the attacks of September 11 highlighted the folly of such complacency.

Thomas d'Aquino, Business Council on National Issues

Conclusion: An Agenda for Discussion

This is clearly a time to consider, evaluate and study the public policy options facing Canadians. We must consider those options that make the existing policy framework operate more efficiently. We must consider those initiatives that are being driven by current events and where decisions must be made quickly. And finally we must consider those options that address the changing nature of the global economic environment and have an impact on our long-term economic prospects. But first we must understand the issues,

which include such topics as: labour mobility, tax competitiveness, regulation and competition policy, environmental and resource policies, customs union, currency and intellectual property.

When all is said and done, the ultimate goal of any public policy debate is to increase the standard of living of Canadians. One way of doing so is to maintain Canada's attractiveness as a place to do business and to invest in the most up to date capital. We must maintain Canada's attractiveness as a place where the best and brightest minds wish to live and work. Investors view North America as a single market and seek to serve its consumers in a single fashion. The border matters more to those servicing North America from Canada than those doing so from the United States. The border effect is a serious challenge to the Canadian standard of living. The events of September 11 have made the border effect even more pronounced.

The Committee gives notice that it will undertake a comprehensive study in 2002 of all aspects of the Canadian-American economic relationship to ensure that Canadians are aware of all options available to them and recognize the challenges and choices they face.

CHAPTER IV:
PLANNING FOR THE FUTURE

All the witnesses appearing before the Committee stressed the need to plan for the future, be it in health care, education or innovation. In his remarks to the Committee, Arthur J. Carty (President, National Research Council of Canada) spoke on the need to keep the future in mind: "We, like you members of the Committee, must act in times of crisis with all of our ingenuity, energy and devotion to Canada. But we must absolutely, at the same time, look beyond immediate problems to new possibilities, a positive future and the interests of our children's children."

A highly competitive environment will demand greater flexibility and adaptability on the part of business, individuals and communities. It will require willingness on the part of individuals to learn new skills, to take chances, to move to new jobs and new regions. On the part of business, it will require nimbleness, flexibility and risk taking. It will require communities to diversify their industrial base and to attract new businesses and workers to their respective regions. And importantly, it will require government to make strategic decisions to create a competitive advantage, hence, improving labour productivity and prosperity for all Canadians.

Canadian Chamber of Commerce

Other pressing issues remain to be dealt with. Bonnie Morton (President, National Anti-Poverty Organization) reminded the Committee of the need to remember social issues. "Today much of the talk about federal policy in general, and fiscal priorities in particular, is about security. … In its most simple sense security means 'untroubled by danger or fear.' Regardless of the need for the federal government to concern itself with the security and safety of Canadians from external threat, millions of Canadians every single day, simply because they are poor, have their security threatened — security of food, security of housing, security of employment and security of income. In turn these insecurities lead to problems with health, education, family and community."

In the health care sector, David Thibaudeau (President and CEO, Canadian Association of Insurance and Financial Advisors) told the Committee that, "While we appreciate and support the need to reallocate current spending to such priority areas, the protection of Canada's health care system must also remain a top priority." He was echoed by Pierre Beauchamp (Chief Executive Officer, Canadian Real Estate Association): "The Finance Minister says, rightly, that health care and other social programs must remain a priority, but the approaching strain on the government's coffers owing to an aging population isn't going to go away."

Studies consistently show that governments can improve economic growth by investing in productive expenditures, such as education and research. Added to these areas is an urgent need to ensure that expenditures related to critical infrastructure in the country be given priority attention.

Canadian Chamber of Commerce

This Committee has consistently recommended adopting a long-term vision, one focused around achieving the kind of productivity increases that will bolster the country's standard of living. The Committee's June 1999 report *Productivity with a Purpose: Improving the Standard of Living of Canadians* argued that productivity increases "cannot be achieved overnight. [They] require policies that are far-sighted, and that will produce long-lasting benefits far into the future… . [We must] resist the temptation to seek quick fixes." It is important to remember that long-term growth tends to solve much of what is viewed as current economic problems. In 2000, the Canadian economy produced about $1,060 billion worth of nominal gross domestic product. With an average 5% nominal growth rate over the next five years this should grow to $1,353 billion by 2005. This in turn implies that the federal government could

An effective economic policy must focus on three factors, a competitive tax structure, strong support for R&D and human resources. They create an environment in which not only the high-tech sector can thrive, but all Canadians as well.

Canadian Advanced Technology Alliance

have an extra $50 billion in tax revenue,[46] or about $8 billion more than it now spends on debt payments each year.

The events of September 11 make planning decisions even more difficult than normal. Security is the number one issue and the Committee firmly believes that at this point it should have a clear priority over other claims. Nevertheless, there is no lack of competition for the other positions on the list. At this time of strained finances and new priorities, the Committee believes that where funds are available, the greatest weight should be given to initiatives that improve Canadian competitiveness, productivity and innovation.

> *If we truly care about the long-term health of public programs and infrastructure that support Canada's way of life, we must not let short-term panic become an excuse for renewing the sad cycle of fiscal despair.* **Thomas P. d'Aquino, President and Chief Executive, Business Council on National Issues**

Given the Committee's views on the dangers of falling back into deficit, we recommend postponing any major new non-security spending initiatives until the longer-term fiscal outlook is secured. At this point we wish to reiterate our five priority areas for the upcoming budget, namely:

- **security initiatives;**
- **protecting against a deficit;**
- **a continued commitment to the $100 billion tax reduction plan, and its timetable;**
- **a continued commitment to the federal health-related transfers to the provinces; and**
- **increasing support for R&D and the CIHR.**

The following contains a number of issues that need to be addressed when fiscal conditions permit.

46 This assumes that federal government revenues in 2005 represent 16.9% of nominal GDP, as they did in 2000-01.

Taxation

Capital Taxes

> *Capital taxes act as a disincentive to new investment, and discriminate unfairly against capital-intensive industries.*
> **Sab Meffe, Chair, Taxation Committee, Railway Association of Canada**

The Committee believes that capital taxes represent one area in which the government can make the tax system smarter. Of the many recommendations that could lead to productivity gains and rising standards of living, proposals to eliminate or reduce the capital tax on corporations stood out both because of the frequency with which they were raised during our pre-budget consultations and also because of their obvious and direct link to the productivity agenda. Capital taxes are used at both the federal and provincial levels. In 1999, the latest year for which data are available, capital taxes generated about $1.5 billion for the federal government and about $3.9 billion for the provinces.[47]

> *The inclusion of capital taxes in the tax regime seems to be based more on considerations related to government fiscal requirements rather than the design of an efficient and competitive tax system.*
>
> **Canadian Chemical Producers' Association**

The federal government collects two capital taxes, the Large Corporations Tax (LCT) — which applies to all corporations with capital employed in Canada in excess of $10 million — and the Part VI capital tax on financial institutions. Life insurers must pay an additional surtax. These taxes act as a minimum tax — rather than an additional tax — that is paid in good times and bad. It can be offset by any current year's corporate income surtax payable. Surtax incurred in any of the previous three, or subsequent seven, years may also be applied against current year capital tax liabilities.

> *These profit-insensitive taxes exacerbate the effects of downturns in the economy by imposing heavy tax burdens precisely when corporations can least afford them.*
>
> **Canadian Chemical Producers' Association**

As the figures above reveal, capital taxes are more important at the provincial level. Seven provinces[48] levy a general capital tax on corporations, and every province levies a capital tax on financial institutions. The bases for provincial capital taxes differ from the federal base, and the provincial bases differ from one another. One of the major differences between federal and provincial capital taxes is that "provincial levies are generally deductible in computing taxable income for corporate income tax purposes. This lowers a corporation's taxable income. For example, if a corporation had a provincial capital tax bill of $10 million and an income of $100 million, its net taxable income for income tax purposes would be $90 million [income less capital tax]."[49]

> *Capital taxes at federal and provincial levels reduce incentives for manufacturers and exporters to invest in new technologies and production facilities.*
>
> **Canadian Manufacturers and Exporters**

Gregory J. Haymes of Statistics Canada remarks, "provincial levies are considered fixed, because, unlike federal levies, corporations cannot reduce their capital tax payable based upon their corporate income tax. Secondly,

47 Conference Board of Canada, *The Case Against Capital Taxes*, November 2001, p. 6.

48 Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, and British Columbia.

49 Gregory J. Haymes, *Capital Taxes in Canada: What are They and What are Their Trends?*, Statistics Canada, 1999, p. 4.

provincial capital taxes are deductible in computing taxable income for corporate income tax purposes, thereby, lowering the federal and provincial corporate income tax base."[50] This feature has created an incentive for the provinces to use capital taxes because part of the incidence is shifted to the federal government.

> *Capital taxes represent a tax on innovation, productivity and on investments. They are applied to companies even when a firm suffers a loss. We also recommend that the federal government, together with provinces, abolish this regressive burden on businesses.* **Gilles Ouimet**

Capital tax is tantamount to a tax on innovation and productivity and runs contrary to general business objectives for growth and investment.

Canadian Manufacturers and Exporters

As witnesses told the Committee, capital taxes discourage investment, reduce productivity, and disproportionately affect capital-intensive industries. Furthermore, according to the brief submitted by the Coalition for the Elimination of Capital Taxes, a group of Canadian firms from the manufacturing and resource industries, "As capital taxes are a profit-insensitive tax, in times of economic slowdown they reduce companies' ability to 'weather the storm,' leading to an even greater hit on their profitability."

Financial corporations face an additional burden. According to the Conference Board of Canada:

> *A study of the effects of capital taxes on the financial sector found that these taxes run counter to efforts by regulatory agencies around the world to increase the amount of prudential capital in financial institutions. The conclusion was that the competitiveness of Canadian financial institutions worldwide was being hurt by high capital taxes. The report[51] called for the immediate reduction and eventual elimination of all taxes on the regulatory capital of financial institutions — a view supported in the final report of the Task Force on the Future of the Canadian Financial Services Sector.* **The Case Against Capital Taxes**

> *We believe that it's important to eliminate capital taxes. These profit-insensitive taxes are job killers. The federal government would also be encouraged to work with the provinces to eliminate all capital taxes.* **Barry Lacombe, President, Canadian Steel Producers' Association, Business Tax Reform Coalition**

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50 Haymes, p. 7.

51 Kevin J. Dancey, *Impact of Taxation on the Financial Services Sector,* Ottawa: Task Force on the Future of the Canadian Financial Services Sector, September 1998.

Investment in new equipment is one of the key factors affecting long-running productivity growth. One of the few non-controversial conclusions among experts is the fact that economies that invest heavily in physical capital tend to enjoy higher productivity and hence growth rates than those that do not. The overwhelming majority of all investment is financed out of retained earnings, i.e., what is left out of net profits after dividends have been paid to shareholders. Anything that reduces this pool of financial capital is likely to have a negative effect on investment. And that is exactly what the capital tax does: it targets the pool of financial capital out of which the bulk of physical investment is financed.

> *At the risk of sounding repetitive, by eliminating the capital tax…the federal government would be sending a strong, positive signal to investors at a critical point in the business cycle. What better way could you provide a step to further encourage the deployment of new energy-efficient and productive assets to serve the economy?*
> **Bruce Burrows, Vice-President, Public Affairs, Government Relations, Canadian Railway Association**

The Committee has supported in the past, and continues to support, a reduction in capital taxes, in conjunction with provincial reductions, while at the same time harmonizing the tax base, in order to simplify the system. In its November 2001 study on capital taxes, the Conference Board of Canada concluded that harmonization of federal and provincial tax bases and rates "would yield significantly lower capital tax revenues to the provinces, but a simple change in tax rates would take care of the revenue shortfall. In fact, simplifying the capital tax calculations would enable corporations to realize benefits from lower compliance and audit costs."

In its 1999 Pre-Budget Consultation report, the Committee observed that, "Taxes on capital or the returns from capital tend to reduce the returns from investment and hence reduce the amount of investment that is undertaken. This means a smaller stock of capital as well as an older stock of capital. Both of these factors will lead to lower productivity and hence lower real wages. Moreover, as this lower productivity would make Canadian firms less competitive internationally, it could also lead to lower employment in Canada."

The Committee notes that several provinces have already begun to move on capital taxes. On April 1, 2001, Alberta eliminated its capital tax on financial institutions, and has moved to repeal the deductibility of capital taxes paid in other provinces in computing Alberta corporate tax. In the 2001 Ontario Budget, Ontario indicated it would begin eliminating the Ontario Capital Tax, starting with an increase in the threshold to $5 million of taxable capital. British Columbia, in its 2001 Economic and Fiscal Update, announced it would be phasing out the B.C. corporate capital tax by cutting the rate in half this year, and eliminating it entirely in 2002. Finally, in its most recent budget, the Québec government said it would reduce its capital tax from 0.64% to 0.3% by

2007. According to the Conference Board of Canada, "Other provinces have either raised the exemption levels … or have offered generous tax holidays for large investment projects."[52] At the federal level, the government allowed the temporary surtax on deposit-taking institutions to expire in October 2000.

Priorities may have shifted, but the Committee's analysis remains correct, as does our 1999 recommendation for a reduction in capital taxes, in conjunction with provincial reductions, while at the same time harmonizing the tax base.

The Committee recommends that the federal government encourage a harmonization of the capital tax base, and the elimination of the capital tax.

Tax Deductions for Charitable Donations

Charities are vital contributors to Canada's role in the New Economy, to equality of opportunity for Canadians and to the quality of life in our communities — yet their financial position is precarious. Their role as social policy innovators is particularly endangered by a shortage of venture capital, which could be alleviated by encouraging new and larger foundations — especially private foundations.

Canadian Centre for Philanthropy

The voluntary sector plays an important role in sustaining the quality of life in Canada. These groups have increasingly taken on larger roles in society in all areas of social services. It is therefore vital that the government support them in their work. On October 12, the government announced that it would make permanent the successful 1997 measure by which certain donations of publicly traded securities to public foundations are subject to a capital gains inclusion rate of one-half the amount included for other gains.[53] This measure had been scheduled to expire on 31 December 2001.

> *From the data available, it appears that this measure has been an effective additional incentive for people to make donations to charities. This is exactly what the measure was designed to do.* **Finance Minister Paul Martin**

According to a Deloitte & Touche Report, the number and value of gifts of publicly listed securities, as well as their dollar share of total donations, has risen between 1996 and 1999.[54] According to the Department of Finance, data for the 1997-2000 period show that both the number and the value of donations of securities have increased significantly. Furthermore, the Department of Finance reports that a broad range of charitable areas — education, health, religion, and welfare — have benefited from the increase.

Witnesses appearing before the Committee, including the Canadian Arts Summit, Community Foundations of Canada, and United Ways of Ontario, were unanimous in their support for both the exemption and its extension.

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52 Conference Board of Canada, *The Case Against Capital Taxes*, p. i.

53 In other words, one-half of the regular 50% capital gains inclusion rate, or 25%.

54 Deloitte & Touche, *Survey of Gifts of Publicly Listed Securities*, August 2000, http://www.afptoronto.org/resources/deloitte_touche_report.html. Sponsored by the Council for Business and the Arts In Canada, Canadian Association of Gift Planners, National Society of Fund Raising Executives, Association for Healthcare Philanthropy and endorsed by the Canadian Council for the Advancement of Education and the Canadian Centre for Philanthropy.

No matter what kind of charity you are, no matter which part of the country you're in, and no matter what issue you work on — libraries, universities, hospitals, family services centres, religious organizations, or aid organizations — the capital gains tax cut has helped increased philanthropy across the board. **Nicholas Offord, President, Mount Sinai Hospital Foundation of Toronto; Association of Fundraising Professionals**

I would like to commend the government for its recent wonderful announcement with regard to the extension and actually to making permanent of the capital gains rules concerns gifts of appreciated shares to public foundations. **Gail Asper, Managing Director, Asper Foundation Inc. President, CanWest Global Foundation**

We applaud the recent decision and consequent announcement made by the Minister on 12 October 2001, to make permanent the incentive for gifts of publicly listed securities to charitable organizations and public foundations. In communities across Canada examples abound of extraordinary new gifts to charities of publicly listed securities stimulated by this incentive. **Canadian Association of Gift Planners**

While the Committee supports the government's announcement, we believe that more can still be done, in two areas specifically.

First, the Committee notes that the special rule on donations of publicly traded securities applies only to public foundations, not private foundations. This, despite the fact that over 80% of foundations in Canada are private. Furthermore, as the Asper Foundation notes in its written submission, "The 1,783 private foundations across Canada provide the same public accountability as public foundations — they submit the same reports, they have *exactly* the same requirements to contribute to registered charities and they are equally successful in reaching a wide range of charities."

If the capital gains tax incentive of gifts of publicly traded shares encouraged even one individual to create a foundation like the Max Bell Foundation, the benefit to Canadian society would be many, many times greater than the benefit Canadians would realize from the imposition of that relatively small capital gains tax. We believe extending this incentive will send a message to

Donors of stock are sharing a portion of their assets, not just their incomes, with charities in their communities. The capital gains tax reduction is an important strategy for sharing that wealth through philanthropy.

Private Foundations Canada

One of the best ways to provide support for the voluntary sector is through enhanced tax incentives for charitable giving.

United Ways of Ontario

dozens, even hundreds, of Canadians that the Government of Canada values the creation and growth of private foundations. **David Elton, Chair, Government Relations Committee, Private Foundations Canada**

Second, while the reduction in capital gains inclusion for donations of publicly traded securities is a good start, the Committee believes it only makes sense to eliminate the rest of the capital gains inclusion on these securities, as is currently the case in the United States and which was undertaken last year by the United Kingdom. From a cost perspective, while a complete exemption in 1997 (when the regular capital gains inclusion rate was 75%) would have cost between $20 million and $70 million per year in the initial years, the reduction in the regular inclusion rate means the revenue loss would only be between $6 million and $21 million. In other words, as Donald K. Johnson (Vice-Chairman, BMO Nesbitt Burns) urged the Committee, it is time to "finish the job."

Eliminating the capital gains tax on gifts of stock to charity … is affordable, it's sound, it's proven to work. **Nicholas Offord**

The Committee supports the government's proposal to make permanent the 1997 budget measure that provides special tax assistance for donations of publicly traded securities to charities. We recommend that the government exempt fully from capital gains taxation donations of publicly traded securities to charitable organizations, including private foundations.

Employment Insurance and the YBE

In the past the Committee has supported the government's move to continue to reduce EI premiums. In December 2000, the government announced that for 2001 it would lower EI premiums by 25 cents to $2.25. The government has also committed to a 10-cent reduction in EI premiums for the coming year. Indeed, according to the October 2000 Economic Statement and Budget Update EI premiums will be reduced by $16.2 billion between 1997-98 and 2002-03.

On 15 May of this year, the government passed Bill C-2, *An Act to amend the Employment Insurance Act and the Employment Insurance (Fishing) Regulations*. The Bill:

- Eliminated the Intensity Rule;
- Adjusted the Benefit Repayment (clawback) provision;
- Modified the re-entrant rules for parents returning to the workforce;
- Allowed the government to continue to monitor and assess the impact of the EI program until 2006;
- Allowed the Governor-in-Council to set the premium rates for two years;

- Maintained the maximum insurable earnings (MIE) at $39,000; and
- Aligned EI Fishing Regulations with the enhanced maternity, parental and sickness benefits.

Furthermore, parental benefits have been extended by 25 weeks, from 10 to 35 weeks. Combined with maternity benefits, this extends child-related leave from six months to one year. The new benefit repayment rule exempts first-time claimants from the benefit repayment (requiring repayment of benefits only if the claimant's net income is greater than $48,750), and limits the maximum repayment to 30% of a person's benefits. Regarding the intensity rules, as of October 1, 2000, all EI claimants were eligible to receive 55% of their insurable earnings.

As well, the EI Family Supplement for low-income recipients of EI with children is worth $110 million annually.

Witnesses appearing before the Committee raised two main issues with regard to EI. First, there was the issue of a 10-cent cut to EI premiums. Groups such as Canadian Manufacturers and Exporters told the Committee that they saw the EI reduction as part of the government's already-announced tax-cut plans.

> *The $100 billion federal tax plan includes a 10¢ EI premium cut for 2002. A lower rate cut will signal to employers and employees that the government is prepared to move off its tax reduction plan.*
> **Garth Whyte, Senior Vice-President, National Affairs, Canadian Federation of Independent Business**

In 1995 the EI premium rate was set at the $3.00 per $100 of insurable earnings, despite the fact that the formula required a rate of $3.30. In 1996, the rate was reduced by a further 5 cents at a cost of $350 million. In 1997, the rate was reduced by a further 5 cents. Maximum insurable earnings were reduced, causing a $900 million reduction in premiums. Premium relief was offered to small business in 1995 and again in 1997 and 1998. In 1999, 2000 and 2001 the rate was reduced by 15 cents per year. The rate is still above the break-even rate and the Committee believes it should continue to be reduced toward that level.

The Committee recommends that the government continue to reduce EI premiums so as to gradually get closer to the break-even rate.

The second issue raised by witnesses, notably from groups like the Canadian Federation of Independent Business, the Hotel Association of Canada, the Canadian Tourism Association, the Canadian Restaurant and Foodservices Association and the Retail Council of Canada, is a yearly basic exemption (YBE) for EI similar to that used in the Canada and Quebec Pension Plans. A YBE would exempt employers and employees from paying EI premiums on the first few thousand dollars of an individual's income. Witnesses suggested a $2,000-$3,000 YBE.

The Committee notes that the House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities (HRD Committee) supported a $2,000 YBE in its May 2001 report, *Beyond Bill C-2: A Review of Other Proposals to Reform Employment Insurance*. That Committee remarked that currently a third of the 1.2 million individuals eligible for a premium refund in 1998 applied to have their premiums refunded, and that a YBE would "reduce administrative complexity and … ensure that all individuals, not just those who apply for a premium refund by filing an income tax return, are treated equally.... This approach is not only fairer to workers with low earnings, but also to employers who are currently required to pay premiums on behalf of workers who receive a premium refund."

We recognize that the weakened economy has increased federal fiscal pressures and has limited [the government's] flexibility and options. … Our preferred approach is a $3,000 YBE for Canadians under the age of 25 only.

Canadian Restaurant and Foodservices Association

The Committee notes that, at $2.3 billion, a full YBE would be costly to implement and is not affordable given the current economic downturn and need for increased security spending.

The Committee recommends that the government consider implementing a YBE, and that, in the interim, it take into consideration the recommendation of the Canadian Restaurant and Foodservices Association.

Revisiting Capital Cost Allowance (CCA) Rates

> *…we believe that the federal government has the opportunity to significantly influence the construction and development of generating facilities and infrastructure in Canada through changes to the CCA rates. Investors require enhanced tax rates and strong signals that produce rates of return needed to attract the necessary capital. The resulting inflow of investment capital will contribute to economic growth, increase jobs and [create] a more competitive industry sector in today's global marketplace.* **Roy G. Staveley, Senior Vice-President, Public Affairs and Environment, Canadian Electricity Association**

The Committee heard from a cross-section of industry representatives who argued that many capital cost allowance rates (CCA) — the rate at which a firm can writedown the value of its investment in a piece of machinery for tax purposes[55] – no longer reflect the actual economic life of the equipment.

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55 There are several ways to calculate CCA rates. The most common method is the *straight-line* approach, whereby an equal amount is charged to each accounting period. The *declining balance* method is also quite common. Instead of an equal charge each year, it uses a fixed percentage. This percentage is applied to the value of the asset and the resulting amount is deducted from the asset's value. The remaining balance is used to determine the amount against which the percentage will be applied in the subsequent period. The declining balance method leads to a larger "up-front" depreciation of the asset compared with the straight-line method.

> *Locomotives and railway cars have a certain physical life and, depending on how you maintain them, that physical life could extend 20, 30, 40 years. An economic life, however, is predicated on the productivity of those assets, and whether those assets are not so much fit for use, but whether those assets really are going to last and generate those productive benefits over a very, very long period of time and allow you to remain competitive against the other modes of transport and other geographic regions.* **John Marinucci, Director, President, National Steel Car Ltd., Canadian Association of Railway Suppliers**

This is due largely to rapid technological change: a machine that at one time may have provided a firm with a competitive edge for ten years may only do so for three years in today's fast-changing world. The sooner these assets can be written off, the sooner the company is able to invest in new technology. This has obvious benefits in terms of productivity. The printing industry gave the Committee a particularly striking example of how technology is rapidly changing the competitive environment and why revised CCA rates are necessary.

> *Unfortunately, manufacturing industries, such as printing, that now rely heavily on high-tech equipment for their production, are unable to depreciate it based on its actual useful life. In fact, Canada's tax policy respecting the depreciation of computer-based equipment is totally outdated. Currently, it can take in excess of seven years before a piece of computer equipment has substantially depreciated for tax purposes, even longer for expensive technology devices. This is an unreasonable amount of time, given the rapid obsolescence of this technological equipment. According to a recent survey, printers are disposing of computers and peripheral equipment within 14 to 36 months. Customers are demanding new and better products and services at an ever-increasing rate. As a result, printers must continue to purchase new high-tech equipment to remain competitive. At the same time, no reliable market exists for used computer-based products since there is virtually no value to technically outdated equipment.* **Jeff Ekstein, Canadian Printing Industries Association**

With the proper public policy regime in place to encourage investment in the newer, more efficient locomotives, which have even lower emission levels, our railways are well-placed to make a major contribution toward helping Canada meet its environmental commitments.

Canadian Association of Railway Suppliers

Revisiting CCA rates would also serve important infrastructure and broader North American competitiveness needs. For example, as the Canadian Electricity Association reminded the Committee, much of Canada's electricity infrastructure is dated and new investments have been slow in coming throughout most of the 1990s because of slow economic growth and slow demand. With stronger economic growth in the last part of the 1990s and a new,

more competitive energy market that is fast becoming North American in its scope, new investments become increasingly important if Canada's electricity industry is to remain competitive and, indeed, able to meet domestic demand. The Committee heard similar arguments from the Railway Association of Canada and the Canadian Association of Railway Suppliers.

> *Relative to the United States, rail transport in the United States is depreciated for tax purposes in seven to eight years as opposed to our 15 to 20 years in Canada.... Changing the tax rate on rail cars, locomotives and intermodal equipment will not result in a tax loss in cash to the Canadian taxpayer. Since the United States already has those favourable tax policies in place, the railroads have been leasing their product from the United States to the tune of approximately $600 million plus per year in rents. The bulk of that capital flows to the United States and never returns to Canada.* **John Marinucci**

> *We're a service business. We have to meet the needs of our customers, and our assets have to fit the demand. This means that, over time and at an increasingly fast pace, customers require different features on equipment. That means that in a short period of time, we might have to buy new equipment with different features. Newsprint rolls, for example, are only getting bigger and heavier....* **Bruce Burrows**

There are important environmental benefits to revising CCA rates as well: new technologies are frequently more efficient and hence more environmentally sound. The federal government has created a class of depreciable capital assets specifically designed for new, energy-efficient or environmentally friendly technologies. The government should consider expanding the criteria for eligibility.

> *Since environmental performance in reducing greenhouse gases is vital to this country, the proposed CCA rate changes will contribute to the turnover of capital stock in favour of a more efficient plan and encourage emerging technology development.* **Jeff Ekstein**

The Committee recommends that the government undertake the research necessary for a comprehensive reform of the capital cost allowance rates to better reflect the pace of technological change and the ever-shortening economic life of modern machinery and equipment.

Registered Savings Plans

> *The ability to fund an adequate level of retirement income on a tax-effective basis is crucial in encouraging our best and brightest to remain in Canada.... Sustaining and growing the tax base through a productive work force will become increasingly important, particularly as the baby boom generation reaches retirement in the next 10 to 15 years.* **Canadian Life and Health Insurance Association Inc.**

A number of submissions to the Committee recommended that the government increase contribution limits on registered retirement savings plans (RRSPs) and registered pension plans (RPPs). A number of organizations recommended that contribution limits be doubled immediately to $27,000 and that these limits be immediately indexed to inflation, as was done with the rest of the income tax system in the 2000 Budget. Some suggested that this increase be accomplished by increasing the percentage limit to 36% of earned income (up to $75,000) instead of the current 18% limit.

> *One proposal strongly supported by our members is that the dollar limit of RRSPs be increased from $13,500 to $15,500 for 2002. The proposal is intended to bring more equitable treatment between those who must rely on RRSPs and those covered by registered pension plans.*
>
> **Canadian Federation of Independent Business**

Witnesses put forward a number of arguments to support these recommendations. First, it would improve the competitiveness of Canada's savings regime with that of its major competitors. This would help attract and retain workers in Canada. Moreover, government tax revenue would rise as the baby-boomer population reaches retirement and cashes-out its retirement plans. This bulge in tax revenue would come just as this same population puts increasing demands on the health care system.

> *Income withdrawn from enhanced private retirement savings vehicles, made by Canadians today, would provide critical tax revenue at a time to match the expected tax expenditures.* **Canadian Life and Health Insurance Association Inc.**

> *Increasing the percentage rate allows Canadians at all income levels to make increased contributions to their RRSPs. It would also bring Canada closer to the contribution limits in countries that are competing with Canada for skilled talent.* **John Mountain, Vice-President, Regulation, Investment Funds Institute of Canada**

> *Federal government policy should be designed to provide all Canadians with the incentive to plan and save for the future.*
>
> **Ontario Municipal Employer Retirement System**

In its last few budgets, the government has taken measures to help Canadians prepare for their retirement. For example, in two separate moves (the 2000 Budget and the subsequent *Economic Statement and Budget Update*) it reduced the capital gains inclusion rate — the portion of capital gains that is

taxable — to 50% from 75%. The government has also committed to increasing RPP limits to $14,500 in 2003 and RRSP limits to a similar amount in 2004. Thereafter, the limit on each savings plan would increase by another $1,000 (i.e., in 2004 and 2005 respectively), after which limits will rise with inflation.

> *Raising the RRSP limits is essentially a matter of providing Canadian workers with more flexibility in planning for their retirement.* **John Mountain**

> *OMERS recommends an increase in the benefit and contribution limits for registered pension plans. These two measures ... will ensure all residents of Canada will be able to retire in comfort and enjoy a high quality of life in their later years.*
>
> **Ontario Municipal Employer Retirement System**

While the Committee believes that increasing the RRSP contribution limit could play an important role in attracting and retaining skilled workers, it must also consider the government's fiscal position.

The Committee recommends that RPP and RRSP limits be indexed to inflation, consistent with the government's decision to restore full indexation to the personal income tax system. Similarly, the Committee recommends that the government consider a one-time increase in contribution limits for the full range of savings plans beyond what is already planned.

Another important part of the government's efforts to encourage savings is the Registered Education Savings Plan (RESP), which allows parents to invest up to $4,000 per year for their children's post-secondary education up to a lifetime maximum of $42,000. In 1998, the government introduced the Canada Education Savings Grant, which matches 20% of the first $2,000 invested annually in an RESP. While the Committee heard unanimous support for both programs, there was some concern that the program did not provide enough assistance to low and middle-income families. The Canadian Association of Not-for-Profit RESP Dealers put forward three proposals to address this concern. The first would have the government increase its contribution for low and middle-income families to 30% of the first $1,000 (annually) put into an RESP. Second, the government was urged to change the *Income Tax Act* to make it easier for provinces to offer programs similar to the Canada Education Savings Grant. Third, the government should create bankruptcy protection for RESP plans: low- and middle-income families are more likely to declare bankruptcy than higher-income families, thereby threatening the accumulated savings undertaken for their children.

The Committee recommends that the government increase the Canada Education Savings Grant contribution to 30% of the first $1,000 contributed annually to an RESP and reduce it to 10% for the second $1,000 of contributions. The Committee recommends that the government also consider creating bankruptcy protection for RESP funds.

The Canadian Film and Television Industry

The Canadian Television Fund has played an important role in ensuring the presence of high quality Canadian programming by providing production financing for Canadian content productions. It has also had important economic spinoffs in the form of jobs and made-in-Canada film and television expertise.

The fund is due to expire in April 2002. The government is currently considering a renewal of its commitment to the fund.

The government also encourages Canadian content productions through the certified film or video production credit, which was created in 1995 and can amount to as much as 12% of the total production budget. While an important fiscal incentive for the creation of Canadian programming, the industry has argued that the tax credit calculation is subject to a large number of cost disqualifications that make the calculation complex and uncertain, which in turn delays the actual payment of the credit. The Canadian Film and Television Production Association is currently in negotiations with the Department of Finance to simplify the tax credit.

The Committee supports a continued commitment to the Canadian Television Fund. We also urge the government to continue working with the Canadian Film and Television Production Association to simplify the certified film and video production credit.

Microbrewers

This year, the Committee heard from the microbrewing sector. These 53 small companies are located in communities across Canada, bringing important economic activity to all regions of the country. However, they told the Committee that the high level of excise duties paid by their sector is having an adverse effect on their ability to remain viable. Excise duties represent the single highest federal tax paid by the industry. According to the submission of the Brewer's Association of Canada, "at $27.985 per hectolitre, excise duty equals the average cost of maintaining a small brewery, estimated at $30 per hectolitre and direct labour costs, estimated at between $27 and $32 per hectolitre." Furthermore, the low level of tax burden on American microbreweries leaves Canadian companies at a competitive disadvantage because they compete for the same market segment.

The Canadian government is the only jurisdiction in North America that does not provide some type of production tax relief for small brewers.

Creemore Springs Brewery Limited

> *The effects of excise tax are relentless, however. This year we will sell just a little better than $10 million worth of beer, we now employ about 42 people and we'll pay in excess of $800,000 in federal excise tax. To put it in perspective, it costs more in excise tax than it does in labour to produce the beer. At $28 a hectolitre, that tax competes directly with capital required for reinvestment in property, plant and equipment and for hiring more people.* **Howard Thompson, President and CEO, Creemore Springs Brewery Limited, Brewers Association of Canada**

The microbreweries offer high-quality products that are very important in terms of cultural and regional contributions. All of the member breweries are companies that have flourished thanks to their spirit of enterprise. They have to struggle constantly to survive and to provide jobs in an environment where economies of scale and taxes reduce their competitiveness.

Canadian Council of Regional Brewers and Canadian Federation of Independent Business

In order to alleviate the situation, the brewers association suggests a 60% reduction in the rate of excise duty on the first 75,000 hectolitres of production for Canadian brewers producing no more than 300,000 hecotlitres annually. According to their submission, such a reduction would represent a $10.9 million savings to microbrewers, or about 2% of total excise duty revenues.

Mechanics' Tools

Revisiting a theme from previous pre-budget consultations, representatives from the automotive industry remarked to the Committee on the lack of provisions in the *Income Tax Act* regarding their tools. These special provisions in the *Income Tax Act* would be similar to those allowed to artists, chainsaw operators and musicians. The initial cost of tools for apprentices and automobile technicians, and annual replacement purchases, can total tens of thousands of dollars, yet is not deductible. As well, the industry continues to face a shortage of qualified technicians.

> *As a result of this unfair tax treatment we are experiencing the following problems: a serious decline in youth enrolment in automotive technical schools, a shrinking workforce, and a shortage of skilled workers. ... Our automotive dealerships have the jobs for youths. However, the government's taxation of technician's tools acts as a large financial barrier and is a disincentive to many young people considering a career as an automotive technician.* **Canadian Automobile Dealers Association**

Employment expense deductions are generally not available to those who are not self-employed. Only a few exceptions are granted, as noted above.

The Committee believes the government should make some provision for fairer tax treatment of mechanics' tools and recommends that this be limited initially to apprentices.

Tax Treatment of Race Horse Operators

The Committee heard concerns that the *Income Tax Act*, and in particular Section 31, may be hurting the Canadian horse racing industry, weakening its position relative to its American counterpart and other entertainment and sporting activities. As of 1952, most losses from a business are *fully* deductible against other income if it can be shown there is a reasonable expectation that the business will generate a profit. However, part-time farmers, including most race horse operators, can only deduct a maximum loss of $8,750 against other income regardless of whether the individual invested $5,000 or $500,000 in the business.[56] Given its negative effects on the Canadian horse racing industry, there appears to be little remaining rationale for this loss limit, which has also not kept pace with inflation since it was introduced in 1951, when the maximum was set at $5,000.

Race horse operators are not alone in this concern. For example, the Saskatchewan Wheat Pool argued that Section 31 also hurts young farmers,

56 The *Act* defines a part-time farmer as someone whose chief source of income in a taxation year is neither farming nor some combination of farming and some other income-generating activity. It is, in other words, a "sideline" business. Persons who operate hobby farms, i.e., with no expectations of profits, are not eligible for any deductions from losses on these operations.

struggling under large debt loads, who supplement their farm operations with off-farm work. Because of vagueness over what constitutes their "chief source of income," many face the same loss limits in Sections 31 as racing horse operators.

The Committee recommends that Section 31 of the ITA be repealed. The Committee also recommends that the Department of Finance or the Canada Customs and Revenue Agency issue an interpretation bulletin providing guidance as to what constitutes a reasonable expectation of profit test for race horse operators.

Employee Stock Ownership Plans (ESOPs)

Throughout the consultation process, the Committee heard numerous recommendations from Canadians for targeted tax measures that could increase productivity. One such proposal was the suggestion that the federal government create tax incentives for Employee Stock Ownership Plans (ESOPs) or, alternatively, Employee Stock Purchase Plans (ESPPs).

ESOPs are benefit plans that help employees acquire shares in the company they work for, usually with little or no money down, no salary deductions, no commitment of the employee's pension funds and no personal liability. The shares are purchased with loans taken on by the company on the employee's behalf and repaid out of the company's own contributions.

Most ESOP proposals for Canada are patterned after a U.S. program, which has been in effect since 1974. The U.S. model features deductibility of interest payments on the loans used to acquire the shares and deductibility of employer contributions to the plan. In the case where the shares are not issued from the company's own treasury, the U.S. system also allows shareholders who sell a 30% or greater stake in the company to employees to rollover the amount, tax free, into some other business. In the early years of the U.S. ESOP program, there were also tax incentives for lending institutions. Regarding ESPPs, these plans essentially facilitate the acquisitions of shares by employees through an outright purchase, generally resulting in a 20% tax credit on the cost of the shares.

Witnesses told the Committee that, by giving employees a stake in their own companies, share-ownership plans encourage employees to think more like owners, leading them to come up with the cost savings and revenue-generating ideas that generate productivity gains. The plans could also be used to attract and retain important employees, not just executive-level staff who generally are compensated with some combination of salary and stock options. ESOPs and ESPPs also hold out the promise of addressing other long-term concerns such as the aging population. For example, increased employee ownership could ease the transition from one ownership regime — for example, in a family-owned business — to another because employees would have a greater say and presumably, understanding of the company. ESOPs or ESPPs could also act as a supplement to existing RRSP and Canada Pension Plan retirement funds.

While there was a general consensus that ESOPs are preferable to ESPPs because they tend to lead to broader ownership, there was also the acknowledgement that a go-slow approach that began with an ESPP program

might be best. **The Committee recommends that the government consider measures to promote the use of ESOPs.**

Preservation of Heritage Buildings

Joseph Howe, one of Nova Scotia's early democratic heroes, in 1871 remarked: "A wise nation preserves its records … repairs its great public structures, and fosters national pride and love of country." Indeed, Canada's heritage buildings are an important part of our history, linking us with our shared past. The Committee therefore shares the concern expressed by Brian P. Anthony, Executive Director, Heritage Canada Foundation, who told the Committee that "Canada has lost between 21% and 23% of its heritage building stock in the past thirty years — that is to say, nearly one-quarter in one generation."

In the 2000 Budget, the government indicated its willingness to support the restoration and preservation of Canada's heritage buildings. Canadian Heritage officials have undertaken discussions with other levels of government with a view to establishing a national register and conservation standards with respect to heritage property.

For these actions to have maximum effect, more needs to be done. The Committee notes that countries like the United States, France, Great Britain and Australia, use their national tax systems to encourage the preservation of heritage buildings.

The Committee recommends that the government examine appropriate tax changes that would promote the restoration and preservation of heritage buildings.

The Canadian Federation of Independent Business (CFIB) presented the Committee with a package of recommendations important to the small business community which, the organization contends, would have only a modest impact on federal revenues. Although the Committee has dealt with some of the items separately, we present the CFIB package here.

- Re-introduce the New Hires Program to increase the employment prospects of young workers.
- Reduce the excise tax on the first 75,000 hectolitres of production of microbreweries.
- Allow salaried workers who are obliged to provide their own tools to deduct the cost of those tools from income.
- Simplify the administrative requirements for the application of the R&D tax credits.
- Eliminate the Jewellery Excise Tax.
- Simplify the accounting of the automobile expense deduction.

- Accelerate the tax depreciation of high-tech printing equipment.
- Allow employers who make over contributions to EI or CPP to recoup those overpayments the way employees can.

Research and Development

> *While we must deal with the emergency, the policy issues we are struggling with before September 11 have not been resolved. Government must still consider how to promote innovation in the economy to generate jobs and prosperity.* **Jean Szkotnicki, President, Canadian Animal Health Institute**

> *In reality [innovation] is an investment in a brighter future, which serves as a beacon of hope in these times of doubt and great uncertainty. While we are understandably greatly distracted by the September 11 tragedy and its fallout for the North American economy, confidence will surely be further eroded if governments detour from policy commitments that can have positive long-term effects on our economy and on our way of life.* **David W. Strangway, President and Chief Executive Officer, Canada Foundation for Innovation**

The Canadian Chamber of Commerce would encourage the federal government not to abandon its innovation agenda, but rather to put it in context with today's fiscal realities.

Nancy Hughes Anthony, Canadian Chamber of Commerce

By its nature, investment is a long-term endeavour, requiring individuals and businesses to make decisions that will only reap rewards well into the future. As such, it is risky. Investment in research and development is also critical to enhancing productivity, as technology is the key to higher productivity in the long run.

This Committee has long supported Canada's move to a knowledge economy, and the government's commitment to move Canada from 15th place in spending on research and development in the world to fifth place by 2010. Such a goal is laudable, and reinforces the government's security priority. Arthur J. Carty (President, National Research Council of Canada) reminded the Committee of the role of innovation in dealing with crises, and how long-term planning can have important benefits:

The creation and exploitation of new ideas, processes, medicines and new ways of analysing or understanding human and physical phenomenon drive our modern world, increase our national well-being and ultimately transform our lives.

Canada Foundation for Innovation

> *When a national emergency or a major crisis strikes, there is always a widespread realization that the technological resources that the country needs to respond depend upon decisions that were made, or should have been made, ten or more years ago. Today, for example,*

NRC's latest biosensor technologies for the detection of biological warfare agents, its vaccines against biological weapons, its intelligent diagnostic systems for real-time monitoring in aircraft, its technologies for anti-fabrication and counterfeiting, its fire-suppression techniques and its world-leading 3D scanning vision systems for facial recognition and vehicle identification, not to mention its Canadian Police Research Centre, can plan an important role in new and innovative national security efforts.

But we are only able to consider this role today because, decades ago, wise people made commitments in the midst of other pressing issues that could easily have eaten away at our vision for the future. … We know that we cannot afford to sacrifice our national capacity for creativity and innovation and I want to make that point very strongly; we cannot afford to sacrifice that.

The Committee continues to support measures that promote the creation, and use, of new technologies. Because the gains from research and development accrue to society as a whole, and not just those firms that undertake the research, the government has an important role — through funding and tax incentives — to play in R&D support. The government also has a role to play in creating an environment conducive to invention and innovation by creating centres of excellence and institutes of research. Tax incentives for research and development, technology diffusion programs, research infrastructure, and adequately financed granting councils are also important initiatives that the government has taken to promote R&D. Research is a risky endeavour and the tax system does have an impact on the extent to which individual Canadians and businesses undertake and finance risky activities.

The Canadian chairs program introduced by the government recently is a wonderful program to retain and recruit the best talent to Canadian universities.

Dr. Martha Salcudean

Canada has made significant gains in R&D spending. In 1997, the government created the Canada Foundation for Innovation (CFI), an independent agency mandated to rebuild and reinvest in research labs, installations and facilities in universities, hospitals and colleges across the country. It also created the Canadian Research Chairs, and continued to support the three granting councils. So far, the CFI has supported more than 1,400 projects at 100 universities, hospitals and colleges. Each of these projects funded by the CFI, to the tune of now over $900 billion, has enabled institutions to find matching funding from the provinces and additional monies from the private sector and the universities themselves. Through the Canada Research Chairs, the CFI has also provided $250 million, with no matching funding requirement for Chairs at smaller universities.

In Budget 2000 and the October Economic Statement, the government added an additional $1.4 billion to the CFI. Federal investments in the CFI have attracted additional funding from provincial governments, universities, and the

private and voluntary sectors. Taking into account the funding added in this year's budget, the federal government's contributions to the Foundation will result in a total investment of about $5.5 billion in new research funding. As well, to address key environmental challenges such as climate change and air pollution, the government provided $500 million as its contribution to the First Business Plan of the National Implementation Strategy on Climate Change.

In particular, the Committee heard nothing but support for the work of the three federal granting councils, the Canadian Institutes for Health Research (CIHR), National Science and Engineering Research Council (NSERC), and Social Sciences and Humanities Research Council (SSHRC). The creation in the 1999 budget of the CIHR, in particular, has been well-received by Canadians, so much so that one of its problems (reflected also by the other granting agencies) is that its success has strained its ability to fund all the high-quality proposals it receives.

Over a year ago the Government of Canada demonstrated its commitment to fostering excellence in health research by creating the Canadian Institutes of health Research (CIHR). This innovative approach to supporting health research will result in better health for all Canadians and a strengthened health care system. Health research is the engine that drives the outstanding growth in the biotechnology industry in Canada.

Council for Health Research in Canada

However, much work remains to be done. Currently, we are sixth out of the G-7 nations in terms of R&D spending, trailed only by Italy. The Committee heard from a number of universities, researchers, and hospitals concerned that not enough of the federal government's research assistance has been directed towards the basic infrastructure such as laboratories and buildings that support this research. It is not just the amount of R&D that concerns the Committee but also its nature. R&D linked to commercialization is also important.

Indirect Costs

The Committee heard from several witnesses, including the Association for Healthcare Philanthropy Canada, Association of Universities and Colleges of Canada, Canadian Alliance of Student Associations, The Canadian Consortium for Research, Canadian Association of Research Libraries, and Humanities and Social Sciences Federation of Canada, on the need to increase funding for the indirect costs of research: laboratory maintenance, libraries, the management of the research process (from grant applications to commericalization), and the other tools needed for researchers to do their work. Currently the indirect costs of research are borne mostly by the universities themselves, placing a significant burden on their finances. This also robs some non-science faculties of operating funds so as to finance scientific research indirect costs.

To achieve our national goals and desires in the competitive world of today, it is critically important at this time to immediately increase the funding level for operational research grants, to allow for the development of qualified Canadian researchers who will benefit from the capital initiatives mentioned above.

Douglas B. Richardson, McKercher McKercher & Whitmore

While direct costs are covered by the various granting councils, and while some CFI programs target some indirect costs, more can be done. The Committee heard that countries like the United States and the United Kingdom fund all or part of the indirect costs of research, in addition to the direct costs. According to the submission of the Association of Universities and Colleges of Canada, "in the absence of payment for indirect costs, Canadian universities are losing the battle to remain internationally competitive." This view is supported by the Advisory Council of Science and Technology, which noted in their September 2000 report: "If we continue to ignore these needs — often termed the indirect costs of research — we will adversely affect the efficiency of our research system and ultimately the ability of our universities to attract and retain world-class researchers."

One of the largest science projects ever undertaken in Canada is the Canadian Light Source (CLS), which is to be housed at the University of Saskatchewan in Saskatoon, Saskatchewan. ... The Government of Canada is to be commended for the significant contribution that they are making to the construction through capital dollars of facilities like the CLS.

Douglas B. Richardson, McKercher McKercher & Whitmore

> *It's a fundamentally different situation than what exists across the border at the University of Washington and in other American universities where the federal government has consistently provided indirect cost support for research that is federally sponsored. It would have a dramatic, a very significant impact on the capacity of Canadian universities to meet the reasonable needs and expectations of Parliament if we had the additional support of indirect costs.*
>
> **Don Avison, University Presidents' Council of British Columbia**

> *Universities have no doubt that the non-payment of the indirect costs of research has become a fundamental obstacle to maintaining the quality and the productivity of our university research and learning environment.*
>
> **Association of Universities and Colleges of Canada**

> *Currently, Canada's universities don't receive any of these costs through federal granting council awards. This means there is a perverse punishment for success. For every award a university receives, they need to draw from the operating grant provided at the provincial level for student support to support the full cost of research.*
>
> **Professor Heather Munroe-Blum, University of Toronto**

The Committee remarks that these concerns are not new. In its 1999 PBC report, the Committee remarked on the lack of funding of indirect costs: "No external funds are provided for these indirect costs, and the required funds often come from teaching budgets. An investment infrastructure program would bring together all of the other federal initiatives, enabling research to be commercialized, and graduate students and post-doctoral fellows supported. The Committee believes that research should not be fostered at the expense of university teaching and other university priorities. The federal government should ensure that its efforts to promote research comprise a coherent whole, complementing its own and provincial initiatives."

At the time, the Committee recommended "that a research infrastructure fund be established that would finance institutions' research-related costs flowing directly from other federal research grants." This type of recommendation was supported this year by the AUCC, which recommended annual block grants to universities to reimburse indirect costs incurred in support of federally sponsored research, at a minimum rate of 40% of direct costs, with an adjustment in the allocation rate to reflect baseline compliance and opportunity costs incurred by smaller universities.

However, recognizing the fiscal constraints faced by the government, some participants said that researchers and their institutions at the very least need a re-allocation of existing funding towards basic infrastructure costs. New monies directed at "pure" research will simply lead to physical bottlenecks and will drive more universities to divert funds from other areas to support the work done in the laboratories. Professor of Economics David Laidler told the Committee, for example, that the Faculty of Social Sciences at his university, the University of Western Ontario, has lost about $12 million in operating funds so that the university could finance the indirect costs of research in engineering.

The Committee recommends that the federal government make a strong commitment to providing funding for the indirect costs of research.

Increased Funding

The funding of indirect costs was not the only financial concern expressed by witnesses. The Committee was also told that Canada must not neglect its three federal granting councils, CIHR, NSERC and SSHRC, recognizing that other countries are not standing still when it comes to R&D funding. Still other witnesses remarked on the need to assure that both large and small universities benefit from increased R&D funding, and that science and engineering research not be privileged over the social sciences and humanities.

In order to make Canadian research more effective, several groups, including the Partnership Group for Science and Engineering (PAGSE) and the National Science Organization Working Group, proposed the creation of a national academy for the Sciences, which would "provide a source of credible, independent — that is a very important point — and expert assessment of

sciences underlying pressing issues and matters of public interest."[57] It would include the Canadian Academy of Science and Humanities, the Canadian Academy of Engineering, and a new Canadian Academy of Health Sciences. To set up such an institution would cost around $30-$50 million over ten years, according to witnesses.

The Committee is aware that individual research endeavours and overall research capacity require long-term financial commitments. Inadequate funding in the short run can have serious long-term consequences for research. Stable and secure funding is needed to undertake projects that last many years and to recruit and retain researchers at Canadian institutions.

We call on the government to take the steps necessary to achieve its R&D investment goal, making Canada fifth among nations.

The Committee also recommends that the social sciences, which have traditionally been under funded, receive an appropriate share of new funds.

Canadian Astronomy Long Range Plan

As part of the government's drive to increase spending on research and development, the Committee notes the submission by the Canadian Coalition for Astronomy. They suggested undertaking a Long-Range Plan (LRP) for Canadian astronomy. Presently, Canada invests $22 million annually in astronomy research, which in turn provides world-class opportunities for Canada in science and engineering. However, the next generation of astronomical observatories are so complex and advanced that they can only be completed in conjunction with other countries. Furthermore, the Committee heard that:

> *If we do not invest in the new round of projects outlined in the LRP, Canadian technology will not be a part of them. These international agreements stipulate that only companies from signatory countries may bid for contracts on these projects. Therefore, if Canada does not fund the LRP, Canadian companies will not be able to compete for the more than $4 billion worth of work outlined in the LRP.* **Peter Janson, Chair and Executive Officer, AMEC Inc. Coalition for Canadian Astronomy**

Essentially, the LRP — a ten-year national plan developed by an expert panel of Canadian and international scientists — is the price for Canada to be able to have a seat at the international astronomy table, and to be able to reap the R&D rewards from such collaboration. The LRP has received unanimous

The CIHR model is being followed internationally …this is a global model, where the rest of the world is watching Canada to see how we are developing this integrative approach to health research.

Canadian Institutes for Health Research

We would ask that the federal government pay attention to how research dollars are structured and how the institutions have access to the funds. If it is a granting process, fair enough, but ensure the process is going to be fair to everyone and the funds are going to be equitably distributed"

Maureen Shaw, College Institute Educators' Association of B.C.

While high quality research requires a substantial investment, the costs are more than repaid by long-term reductions in health and social welfare costs.

Canadian National Institute for the Blind

The continued expansion of university research is important to the global economic competitiveness of Canada to supply future researchers, innovation and technological developments to industry.

Partnership Group for Science and Engineering

Canada ranks third in the world in astronomy and among Canadians scientific disciplines, Astronomy is first on the list of science exports.

Coalition of Canadian Astronomy

57 Dr. Howard Alper (Past Chair, Partnership Group for Science & Engineering, Vice Rector, Research, University of Ottawa, National Science Organization Working Group), House of Commons, Standing Committee on Finance, *Minutes of Proceedings and Evidence*, 1st Session, 37th Parliament, 25 September 2001.

For a relatively modest investment, [the Long-Range Plan for Astronomy and Astrophysics] provides opportunities for Canada in high technology and engineering. It will provide a training ground for scientists and technologists working on new technologies and innovations at the frontiers of human knowledge for years to come.

Coalition of Canadian Astronomy

support from the House of Commons Standing Committee on Industry, Science and Technology. Already, the Canadian Space Agency has committed $100 million over the next ten years for the space-borne part of the Plan. The Coalition is seeking between $140 million and $164 million over 10 years, depending on whether its CFI application is successful.

> *Canada's investment in the long-range plan buys the opportunity for Canadians to participate in designing, developing technology and software, and building and maintaining these facilities. It also provides Canadians access to these new telescopes. The world observatories will help Canada stay at the forefront as we unravel the secrets of the universe over the next ten years.* **Russell Taylor, Professor of Astrophysics and President of the Canadian Astronomical Society, Coalition for Canadian Astronomy**

The Canadian astronomy community has a history of effective use of resources. For example, for a $50 million contribution to the $1 billion Atacama Large Milimeter Array project in Chile, the first major international observatory, Canada was able to obtain access to over 30% of the time on the telescope. In 1990, the Canadian government invested $38 million to buy its partnership in the Gemini Twin 8-meter telescopes, resulting in over 80 high-tech and engineering companies being able to compete for work on the project, generating significant economic returns for Canada, as well as access for Canadian students and scientists to the most up-to-date technology.

According to witnesses appearing before the Committee, international agreements to go forward on the first part of the LRP are likely in February, so time is of the essence.

The Committee believes that immediate funding for the LRP is warranted, given the time sensitive nature of this issue. This would help build on our past successes and achieve the government's stated goal of increasing research and development. Consequently, we recommend that the government provide the LRP with the needed funds in the upcoming budget to assure that Canada is able to realize the significant economic benefits that will arise from its international participation in the next generation of astronomical observatories.

Social Infrastructure

Quality health care and education develops employees that are effective and efficient in their jobs, leading to higher productivity.

St. John's Board of Trade

Social infrastructure is a broad concept that encompasses a variety of public services, policies and programs — in education, health, housing, social assistance and welfare, support to families and children in need for example — designed to maintain and improve the standard of living and quality of life of a country's population.

The Committee believes that a sound social infrastructure begins with a strong economy. Without a strong economy and the tax revenues that result, the government's capacity to support necessary social programs is threatened.

Post-Secondary Education

Intimately linked with the importance of increased research and development funding is access to post-secondary education. There is no question that education is the key to success, both for individual Canadians and for Canadian society as a whole. Individually, higher education levels are associated with greater employability, greater stability of employment and higher real incomes; for Canada as a whole, they assure that we can compete in the knowledge economy. Access to post-secondary education is therefore crucial for Canada.

Economic competitiveness and prosperity are closely linked to support for post-secondary education and research.

College Institute Educators' Association of B.C.

In order to assure Canadians' prosperity, access to post-secondary should be on the basis of skill, not ability to pay: everyone who wants and is able to complete a post-secondary education should be afforded the opportunity to do so. This means assuring that the financial burden of attending a post-secondary institution does not act as a deterrent to Canadians who want to better their education.

Much of the Government's focus towards post-secondary education has recently focused around research as a key component of the Innovation Agenda. These is much research to support the wisdom of this investment, as Economist Lester C. Thurow two years ago, "put simply, the payoff from social investment in basic research is as clear as anything is ever going to be in economics." However, this investment by the Government may be penny-wise buy pound foolish unless the investment is done in concert with a number of other crucial investments in post-secondary education.

Canadian Alliance of Student Associations

Over the past several years, the government has taken several initiatives to alleviate the financial burden of post-secondary education. We have already remarked on the contribution of RESPs and the improved tuition credit. The Canada Millennium Scholarship provides over 90,000 needy students each year with scholarships averaging $3,000 a year to reduce the debt that they would otherwise have incurred, while Canada Study Grants of up to $3,000 provide assistance to about 25,000 students with dependants. The government has also changed the Canada Student Loans Program to help students manage their debt by: increasing the number of people eligible for interest relief; providing debt reduction of up to 50% of Canada student loans outstanding up to a maximum of $10,000 for those in extended financial difficulty; and a tax credit for interest paid on federal and provincial student loans.

Despite these changes, the Committee heard that student debt levels remain a problem for many graduates. According to Liam Arbuckle (National Director, Canadian Alliance of Student Associations): "The inability of students to cover costs of their education through savings, in-study earnings and grants inevitably leads to greater student loan debt. Unfortunately CASA has not found an up-to-date, reputable number on the average student loan debt upon graduation. We do know that an aggregate amount of outstanding student loans was 6.2 times higher in 1999 than in 1984. More than 1.4 million family units reported student loan debts in 1999, up from 490,000 in 1984. The median student loan debt rose from $3,400 to $7,300. It must be noted that this number, $7,300, is the level of student debt in various stages of repayment; the average student loan debt upon graduation is certainly well over $10,000."

Increasing access to educational opportunity is, we believe, the foundation upon which an improved quality of life can and must be built.

University Presidents' Council of British Columbia

The federal government obviously has a concern with the debt level of students because it introduced both the Millennium Scholarship Fund and a debt reduction in repayment measure in the 1998 budget.

Regrettably, debt reduction in repayment has not worked nearly as well as students hoped. The Canada Student Loan Program estimates that 75% of borrowers who exhaust the 54 months of interest relief the federal government provides are ineligible for debt reduction in repayment. The primary reason for this lack of eligibility is that debt reduction and interest relief use two different eligibility tables. These tables determine a borrower's eligibility for assistance based on income and debt load.

CASA believes the federal government needs a debt remission program that is at least as accessible as the interest relief program. After all the borrowers who will be applying for debt remission will already have been earning a barely subsistent income for five years and will have amortized their loans from 10 to 15 years of repayment.

Jennifer Orum (Vice-President, Coordinator, Financial Aid and Awards, University of Victoria, Canadian Association of Student Financial Aid Administrators) told the Committee that the Debt Reduction in Repayment (DRR) program, introduced in the 1998 budget has only helped a couple of hundred students, mainly because of its stringent criteria. Revisiting the DRR would be one way to help students cope with the interest burden of student loans, as would an examination of further income-contingent repayment schemes.

If you think education is expensive, try ignorance.

Canadian Alliance of Student Associations quoting Harvard University President Derek Bok

The Committee is mindful of the financial difficulties of students and recognizes that it is against Canada's economic interests to discourage the pursuit of post-secondary education. **We recommend that the government re-evaluate the criteria for some of its student debt relief initiatives to determine if they are too stringent.** It is unlikely that the DRR was deliberately set up so as to help only a few hundred students.

The current group of students has access to a variety of new federal initiatives that were not available to the previous cohort. If those initiatives are successful, these students will not need the debt relief measures required by earlier groups of students. Once financial circumstances improve, the government can consider any other debt relief measures that might still be required.

Housing

> *Everyone is entitled to a home to call his or her own — affordable, accessible, safe and clean, and with a significant degree of privacy.* **Mae Harman, Past President, Ontario Division, Chair of Economic Concerns Committee, Canadian Pensioners Concerned Incorporated**

> *Housing is a prerequisite for exercising other rights such as health, education, employment, citizenship and leisure.* **Tenants Rights Action Coalition**

In its travels across the country, the Committee heard of the housing crisis facing many Canadians. Rental markets continues to be very tight across the country, having the greatest effect on the least well off. The National Housing and Homelessness Network told the Committee that according to Canada Mortgage and Housing Corporation, more than 1.7 million tenant households — about 4.6 million people — are in "core need" of affordable housing.

Secure and affordable housing benefits Canadian society as a whole as it plays a central role to maintain and improve families' health, children's academic success, participation in the labour market and neighbourhood security.

National Children's Alliance

> *In its reports to rental housing published in the fall of 2000, the Canada Mortgage and Housing Corporation predicted that the vacancy rate, the lowest in 15 years, would continue to fall.* **FRAPRU (Front d'action populaire en réaménagement urbain)**

> *Vacancy rates are the lowest they've been in years. In some parts of Vancouver the vacancy rate is less than 1%. CMHC indicates a balanced vacancy rate at about 2.5%. Renters compete for any available unit. Low-income renters cannot compete.* **Linda Mix, Community Legal Worker, Tenants Rights Action Coalition**

The Committee is of the opinion that there is a role for the federal government to play in the housing market and commend the government on its August commitment to spend $680 over four years on an affordable housing initiative.

Failing to invest adequate resources in housing due to its cost would be extremely short-sighted, because the health, social and economic costs of not investing in housing are higher.

Citizens for Public Justice

> *I would also like to commend the government in its renewed interest in the housing issues following the August conference — especially as they relate to the homeless people across this country.* **Shirley Browne, Vice-President, National Council of Women of Canada**

> *The National Coalition joins many others in appreciation of the federal government's re-entry into affordable housing development, the first such action since 1993.* **National Coalition on Housing and Homelessness**

Almost no affordable private rental housing is being built since developers cannot recover the cost of developing and managing housing from market rents.

National Housing and Homelessness Network

While several groups have advocated increased federal funding of housing initiatives by $2 billion a year, we believe the government's $680 million is a significant step. The Committee shares the view of witnesses that all Canadians should be housed adequately and affordably from coast to coast, and that this problem is best tackled by all levels of governments, along with local organizations.

CMHC policies and practices also have an impact on the housing market, especially in the rental market. It provides insurance for loans on rental properties, which is usually needed when equity is less than 25% of the project value. The premium rates range from a low of 1.75% (equity of at least 35%) to a high of 4.5% (15% to 19% equity).

There are a number of federal tax policies in terms of depreciation, capital cost allowances, and what not, that many people who want to build new private rental construction will tell you are disincentives to doing that.

Patrick O'Hanlon, Greater Toronto Homebuilders' Association

Although policies related to new construction are under review by CMHC, the Committee has been told that current policies are too strict and have contributed to the decline in rental unit construction: 40,000 units per annum in the 1990s compared to 57,000 units per annum in the 1980s and 85,000 units in the 1960s and 1970s. **The Committee recommends that CMHC re-examine its policies so as to support a vibrant rental housing market.**

> *The federal government has promised new spending on affordable housing of $680 million over four years. This spending program was included in the Liberals Red Book III. It was in the last Throne Speech and Minister Gagliano, at a federal/provincial/territorial housing ministers' conference in mid-August in London, Ontario, once again tabled the spending for this program, and we look forward now to its implementation.* **Mark Goldblatt, National Coalition on Housing and Homelessness**

> *We want to congratulate Minister Gagliano on the progress that he's made to date but we want to ask you for your support in giving him the kind of flexibility that he will need to complete his negotiations with the provinces and hopefully, come to a successful announcement at the end of November when he meets with his colleagues in Quebec.* **Sharon Chisholm, National Coalition on Housing and Homelessness**

The Committee recommends that the government follow through on its commitment to spend $680 million for affordable housing and calls on all levels of government to work toward a successful conclusion of a federal-provincial housing strategy. We also call on the government to continue to work with the provinces on this important area of social policy, and welcome any new investment that can be made.

Disability Issues

People who have disabilities face an inordinate number and degree of barriers in our day-to-day lives.

Independent Living Resource Centre St. John's, Newfoundland and Labrador

The Committee has long advocated policies that would make it easier for persons with disabilities to work and be active members of society. This year, the Committee heard a number of presentations about the ongoing difficulties faced by persons with disabilities and those who assist disabled persons in their day-to-day lives, including parents, caregivers, and the broader community.

We have spent a lot of time over the last couple of years consulting with hundreds of families across the country to get a sense of what their issues are. ... They're looking for their sons and daughters to be valued, and they're looking to receive the supports that are going to allow their sons and daughters to be ordinary members of the community. **Dianne Richler, Executive Vice-President, Canadian Association for Community Living**

The government has shown its commitment to helping persons with disabilities in many of its budgets and economic statements. In last fall's Economic Statement and Budget Update, for example, the government increased the disability tax credit (DTC) by almost 40% to $6,000. This increased the maximum tax relief from the DTC to $960, an amount that will increase with time because the DTC is fully indexed to inflation. In the 2000 budget, the government committed to adding $30 million a year to the Opportunities Fund, which was first introduced in the 1997 Budget to help persons with disabilities prepare for, find and keep jobs. The 2000 Budget also provided $11.5 million over three years for the Health and Activity Limitations Survey, which was carried out as part of the 2001 national census.

On the tax front, the 2000 Budget introduced disability measures worth $45 million. These included the creation of a supplement of as much as $500 to the DTC to better recognize caregivers of children with severe disabilities. The government also expanded the list of eligible medical expense tax credits to include the cost of modifications made to homes to assist individuals with severe mobility impairments. Finally, the government increased the limit on the child-care expense deduction for children eligible for the DTC to $10,000 from $7,000 to better recognize the higher costs of child care for children with disabilities.

We are one of the groups that has been presenting before this Committee for a number of years, and we have been very pleased to see the response in the last several budgets supporting people who have a disability. **Dianne Richler**

There's a limitation to how far you can go if you try to address the jurisdictional issues separately. **Dianne Richler**

The Committee was told, however, that tax measures alone are not enough to address the barriers to full participation in community living faced by many persons with disabilities. A coalition of three disability groups called on the federal government to commit to begin negotiating a joint, comprehensive and national strategy with its provincial and territorial counterparts to address the

long-term needs of the disabled and those who provide supports to these individuals.

The Canadian Association for Community Living (CACL) provided a broad framework of what it thinks any such agreement should look like. The first priority should be an agreement on clear definitions of terms (e.g., disability) and key policy objectives, such as what is meant by disability supports at the individual, family and community level. Community-level supports, CACL suggests, should include policies that recognize the unpaid and unrecognized work done by caregivers and families for disabled persons, as well as assisting non-governmental agencies that work with the disability community. This would mean, for example, paid employment leave to look after disabled children and a refundable disability-related expenses tax credit. Such an approach reflects the 2001 Speech from the Throne's commitment to improve the support available to parents and caregivers who are sometimes forced to chose between keeping their jobs and providing care to a child. Implementing this kind of a program would require federal-provincial cooperation because of overlapping jurisdictions. **The Committee recommends that the federal government enter into negotiations with its provincial counterparts to develop a joint investment strategy that would address comprehensively the needs for disabled persons and those who support them.**

The CACL acknowledged that the negotiation process for this kind of framework could take at least two or three years. As an interim measure, the government could change funding practices for national disability organizations, many of which are on the verge of bankruptcy. This would allow them to plan their activities appropriately. This proposal echoes recommendations made by the House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities as well as the Federal Task Force on Disability Issues (the Scott Report). Specifically, the Scott Report recommended that the government provide assured core funding of $5 million to sustain national organizations "as a recognition of the additional disadvantage of people with disabilities in having their voice heard at the federal level."

The Committee recommends that the government adopt the recommendation of the Scott Report and establish core funding for disability groups, with a base amount of $5 million for national disability organizations.

It is the Committee's understanding that the government is also considering investing $60 million in Industry Canada's assistive devices program. These monies would be used for research and development into, and promotion of, new technologies for disabled persons.

The Committee recommends that the government follow through with its commitment in the Speech from the Throne to increase support for the development of new technologies to assist Canadians with disabilities.

National Children's Agenda

> *After September 11th, the National Children's Alliance recognizes that national security issues need to be on the agenda. However, it is important that we continue to invest in economic and social development. Public investment in social, human and cultural capital is critical not only to prepare our children for the jobs of the future, but [it also] builds a level of trust, recognition, and respect for diversity that assures that all Canadians can participate in a positive way to the development of the country.* **National Children's Alliance**

The well-being of Canada's children was another recurring theme in this year's pre-budgetary consultations. Witnesses suggested several proposals to address child poverty, ranging from a national child care system that would make it easier for parents to participate in the workplace, to additional tax measures to assist low-income families.

> *The National Children's Agenda requires a social investment plan and defined policy framework to shape modern family policy in Canada.*
>
> **Campaign 2000: End Child Poverty in Canada**

> *[A] further study in 1998 study by two leading economists ... concluded that, if we offered child care to all Canadian children aged 2-5 years, the immediate benefit to our economy would be greater employability for parents, higher income and taxes paid by parents, and savings to the social welfare system.* **Mary-Anne Bedard, Executive Director, Ontario Coalition for Better Child Care**

The government has repeatedly acted on its commitment to improve the plight of Canada's least-advantaged children and reward parents who chose to work. In its most recent Speech from the Throne, the government stated its goal to ensure that "no Canadian child suffers from the debilitating effects of poverty." Even before the Throne Speech, however, the government took important steps in this direction by first creating the kind of fiscal, monetary, and legal environment needed to spur strong economic growth, arguably any society's most effective anti-poverty measure.

> *The federal government has taken some positive steps on family and child policy. But these have only begun to scratch the surface of child poverty.*
>
> **Citizens for Public Justice**

But economic growth alone is not enough, something the government has long recognized. Beginning this year, for example, maternity and paternity benefits were doubled to one full year, allowing parents to stay at home longer with their children during this critical period in a child's development. In 1998, federal, provincial, and territorial governments created the National Child Benefit (NCB), the country's single most important new social program since the introduction of Medicare in the 1960s. The NCB essentially supplements the existing Canada Child Tax Benefit (CCTB). Since the introduction of the NCB, the government's contributions to this important program have increased steadily. Effective July 2001, the maximum NCB supplement increased by about $300 per year — $100 of which was announced in last fall's Economic

> *The NSSBA commends the federal government on the National Child Benefit and is pleased that a commitment ha been made to continue to increase the government's contribution over the next four years.*
>
> **Nova Scotia School Board Association**

Statement and Budget Update, bringing the maximum annual Canada Child Tax Benefit (CCTB) amount for a family's first child to almost $2,372. The NCB supplement portion of the amount is $1,255 for the first child, $1,055 for the second child, and $980 for each subsequent child. Moreover, as of July 2001, the income level at which the NCB supplement is fully phased out increased to $32,000 from $30,000 in 2000.

Last fall, the federal, provincial, and territorial governments reached an agreement called the Early Childhood Development initiative (ECD), which expands and improves access to services for all families and children in four key areas: health, pregnancy, birth and infancy; parenting and family supports; early childhood development, learning, and care; and community-level supports. The federal government has committed to investing more than $2 billion into the ECD program over a five-year period. A key feature of the ECD agreement is the requirement that the government tell Canadians how well its programs are doing in addressing the needs of children. This will take the form of annual reports (beginning in 2002) based on agreed upon indicators for the costs and benefits of the various programs under the ECD umbrella. This information will play a key role in fine-tuning these programs to better meet their objectives.

> *The Child Care Sector in Nova Scotia commends the federal government in providing leadership in developing and committing funding to implement an Early Childhood Development strategy in the provinces and territories. It is indeed gratifying that our federal and provincial/territorial governments have recognized that, as a society, we have an obligation to our young children to provide them with the best environments so that they can reach their fullest potential.* **Child Care Connections**

It has become even more important in this Information Age that all children be given a full education, and that re-education and re-training be readily available as the world of work changes.

Canadian Pensioners Concerned, National Organization and Ontario Division

However, most child advocacy groups told the Committee that more needs to be done. They suggested that the federal government, along with the provinces and territories, develop a more holistic approach to addressing the problem of child poverty, providing a large number of services under one policy tent rather than the fragmented array of programs currently available.

> *Although the ECDI is an important first step to achieving a comprehensive national system of early childhood development services, including child care, it is not, in its current form and at is current level of funding, a solution. A comprehensive system would incorporate currently separate program areas — early learning or early childhood education and child care. These programs would be linked to and coordinated with a range of other programs and services... and would be designed to meet the needs of all families.* **Ontario Coalition for Better Child Care**

> *The federal government needs to continue to take leadership to work with other levels of governments and the third sector in develop a systemic and integrated approach to support community services and programs.* **National Children's Alliance**

The Committee also heard concerns that far from matching new federal monies, some provinces may be diverting these new funds elsewhere. They called on the federal government to take a more active role in the allocation of these funds, arguing that the review system put in place under the ECD agreement is inadequate.

> *... it is up to each individual province to decide how much, if any, of the federal funding to invest in any of the services, including child care ... . There is no mechanism to ensure that the provinces invest in those areas that are the most needed.* **Ontario Coalition for Better Child Care Network**

The Committee heard a number of other proposals to address child poverty, including that the government increase its fiscal commitment to the ECD to $2 billion a year, extend the ECD program to children aged 6-18 (the current program is targeted at children aged 0-6) and accelerate its plan to gradually increase the ECB supplement.

Another proposal suggested the government encourage greater involvement from the non-government sector in monitoring of the delivery of the ECD program. This would also mean assisting the non-government organization (NGO) sector in developing the tools necessary to measure these outcomes.

> *Successful implementation of the National Children's Agenda will be dependent upon a vibrant third sector to collaborate in the planning, implementation and evaluation phases. The voluntary/NGO sector's role in national information sharing is crucial for dissemination of best practices in program delivery and evaluation.... There will be challenges in defining the boundaries of ECD. It appears that when governments make public their baselines we cannot expect to see any consistency in reporting across jurisdictions. This will make it difficult to hold governments to account concerning their ECD program funding and to make comparisons across jurisdictions. It is critical that the voluntary/NGO sector play a role in monitoring and in working with our constituents in other jurisdictions.* **National Children's Alliance**

In keeping with the Committee's support for programs that promote best practices and efficient delivery of services, the Committee supports the National Children's Alliance recommendation that the federal government fund third-party monitoring of expenditures of the ECD agreement.

The Committee heard a number of other tax reform proposals to assist and provide incentives to parents who chose to stay home and look after their children during their formative years. One suggested plan would allow stay-at-home parents to continue paying Canada Pension Plan (CPP) premiums while on unpaid parental leave from work. This would guarantee that their CPP benefits would be the same as if they had continued working. Individuals taking this option would have to make both the employee and employer contributions. Individuals making CPP contributions receive a 16% federal non-refundable tax credit and generally have sufficient tax liabilities against which to apply this credit. Such would not be the case for all who opt to make CPP contributions while on unpaid leave. The government must consider how to treat such circumstances. Moreover, the CPP is a joint federal-provincial program and such major reforms require provincial consultation.

The Committee recommends that the government study a proposal that would allow parents who chose to stay at home to continue paying CPP premiums.

> *Caregiving time must be counted in pension status and those doing this work should be permitted to contribute to the Canada Pension Plan and to personal RRSPs in their own name.* **Beverly Smith**

Physical Infrastructure

> *We believe the federal contribution to the national infrastructure program should be increased when economic conditions permit.*
> **Appraisal Institute of Canada**

New spending priorities, such as national security, make it even more vital that government spend and regulate wisely. For example, initiatives such as improving Canada's infrastructure should be done for their own merits. Michael Atkinson (President, Canadian Construction Association) told the Committee: "I quite frankly am not one who likes the idea of trying to stimulate the economy by just throwing money into infrastructure. I think it creates short-term jobs if it is not together with a plan that is really looking at how we are going to manage our infrastructure, which is so important to our economy down the road."

Put simply, if infrastructure is undertaken as a stimulus measure, there tends to be little concern about establishing priorities according to need. If undertaken on its own merits, spending tends to be allocated according to expected rates of return. The best projects get funded and poor proposals are rejected.

As with security spending, public infrastructure supports private activity by making it more efficient. This public infrastructure consists of transportation facilities such as roads and bridges, telecommunications systems, water and sewer systems, and educational and health care facilities. In the case of transportation, Jack Davidson (President, B.C. Road Builders and Heavy Construction Association) remarks, "Transportation and highways infrastructure is an essential component of a strong economy. Regional productivity depends highly, if not completely, on the effectiveness of transportation systems."

While provinces and municipalities will always be the main source of support for libraries, the federal government has an overall economic responsibility for investing in this nation's information infrastructure.

Canadian Library Association

Government expenditures on infrastructure have decreased substantially over the past three decades. In the 1960s Canadian governments were collectively spending about 5% of GDP on real gross fixed investment. Today they are spending proportionately half that amount. In part, this might be due to the fact that we significantly added to our stock of infrastructure in the 1960s. Nevertheless, the decline in public spending suggests that this stock is not being adequately maintained.

It's costing us money, it's costing us fuel, it's costing us further pollution from that additional fuel being burned to travel on inefficient and poor highways.

Jeremy Kon, Vice-Chairman, Coalition to Renew Canada's Infrastructure

In the 1999 PBC the Committee recommended that "the federal government initiate a new, long-term infrastructure program, in partnership with the provinces and municipalities, to fund new infrastructure initiatives. This program and its component investments must be subject to program review and meet the test of a Productivity Covenant." The Committee recommended that the federal government commit at least $500 million per year for at least five years.

The government has addressed the physical infrastructure issue in several ways. It has allocated $2.65 billion over the next six years. In the October 2000 Economic Statement, the government committed to examining ways to sustain investments in key strategic infrastructure, particularly by encouraging public-private partnerships. In the 2000 Budget (as part of this higher number), $400 million was allocated for municipal infrastructure in cities and rural communities across Canada, including affordable housing and green infrastructure, and up to $150 million for highways. In addition, the Budget provided a further $200 million per year over the next five years for these safety improvements.

FPEIM commends the Government of Canada for recognizing the importance of municipal infrastructure through the establishment of the Infrastructure Program.

Federation of Prince Edward Island Municipalities

However, much remains to be done. For example, several groups proposed a national highways strategy. According to Michael Atkinson, "Canada is the only G-8 country currently which does not have a national highway program."

Just as we must plan for the long term in other areas, it also makes sense to plan for the long-term renewal of our infrastructure. In this area, Canada can do better.

The National Highway system is central to our transportation infrastructure and must be improved to ensure continued economic growth, productivity and a healthy competitive economy in Canada.

Canadian Automobile Association

Quite frankly, right now we don't know what the governments of this country are planning to do with our key, core infrastructure in this country six months from now. For an industry that is the largest in Canada, with the largest employment, etc., if you want us to plan, do the right thing, be prudent, and work with you as partners, we must do a better job of planning. **Michael Atkinson**

The lack of planning suggests that, for all levels of governments, infrastructure spending has not been accorded the priority it deserves. Since strong and sound infrastructure is an important contributor to productivity (and thus prosperity), this is worrying.

> *This country has a very significant hidden deficit, that is, the pieces of public property and the public buildings where, in the interests of economy, maintenance and ongoing upkeep is not being done. Sooner or later we're going to pay for that. An infrastructure program like a national highways program or affordable housing is a pay-me-now or pay-me-later situation.* **Robert Blakely, Director of Canadian Affairs, Building and Construction Trades Department**

> *The Trans-Canada Highway, for those who have ever driven from Golden to the Alberta border, is an embarrassment. To have signs on that highway indicating that it's a trans-Canada highway should certainly be an embarrassment for all of us.*
>
> **Tony Tennessy, British Columbia and Yukon Territory Building and Construction Trades Council**

The longer this deficit is neglected, the greater it will cost to effect repairs and maintenance. Jeremy Kon (Vice-Chairman, Coalition to Renew Canada's Infrastructure) suggested that the cost of repairing Canada's highway system have escalated from $13 billion in 1988 to $17 billion.

As Jeff Morrison (Director of Communications, Canadian Construction Association) pointed out, "investing in roads and highways is not an end in itself, but rather an integral part of a global strategy that is key to increasing economic competitiveness in the regions, to reducing vehicle emission levels and the number of highway accidents and to reducing the amount of time spent by Canadians on travel in their personal and professional lives.

However, it is also important that public infrastructure be directed to those areas where it has the highest return. For example, the Cement Association of Canada told the Committee that key trade corridors between Canadian cities and the United States should be the focus of any Canadian highway renewal program.

> *The development and maintenance of a strong infrastructure base is a key component supporting a competitive economy and good quality of life.*
>
> **Association of Manitoba Municipalities**

Addressing Canada's infrastructure concerns will require partnership, between federal, provincial, and municipal governments. The Federation of Prince Edward Island Municipalities called on the government to work with the provinces and territories to establish a permanent infrastructure program with increased funding. One particular problem is urban transit issues. Urban centres constitute the core of the Canadian economy. The Urban Development Institute of Ontario noted the need for federal-provincial-local partnerships to address strategic regional transit solutions for the Greater Toronto Area (GTA). Regarding private-public partnership, they suggested a task force/CEO panel on approaches to addressing the transportation infrastructure needs of Canada's urban regions.

The Cement Association of Canada (CAC) recommended exploring new ways to attract more partners and more private dollars to pay for Canada's highway system.

On the rural side, the Association of Yukon Communities (AYC) remarked on the need for "the creation of an infrastructure program to provide basic

services that many urban areas take for granted. Specifically, a dedicated infrastructure program is required to meet basic water, wastewater, and transportation needs."

Infrastructure funding is a particular problem for Canada's northern communities. Many communities lack basic infrastructure and will require special attention to bring their housing, roadways, waterworks, and other parts of their infrastructure to a level that will allow northern communities to participate fully in the Canadian economy, for example, The MacKenzie Highway from Grimshaw, Alberta, to Fort Simpson, NWT. According to Chief Cece McCauley (Women Warriors of Sahtu, Norman Wells, Northwest Territories), "we've been waiting since 1976 for them to finish the road from Fort Wrigley to Inuvik." The lack of an all-weather road is hurting the area's communities, Chief McCauley told the Committee.

The northern regions of Canada are in need of an infrastructure upgrade program to provide basic services that many urban Canadians take for granted.

Association of Yukon Communities

Our communities are in desperate need of assistance, not in terms of continued handouts, but in terms of real investments in basic infrastructure.

Nunavut Association of Municipalities

"The Sahtu Region is the largest region of the five regions in the Northwest Territories, in the western territories, and we are isolated. Everything seems to be mobilized around Yellowknife and Hay River on the southern part of the Northwest Territories, closer to the Alberta border and then the Beaufort Sea to the Yukon, Whitehorse and the Beaufort, so we're in the middle. We're still isolated. We still don't have any roads and everything has to be flown in. The only time we can get freight is in the summertime for maybe two-and-a-half to three months in the summertime. The high cost of living is terrible."

Witnesses estimated that it would take $100 million per year over the next five years to meet housing demands in Nunavut alone. As Keith Peterson (Vice-President, Nunavut Association of Municipalities) told the Committee:

> *In a recent meeting with Finance Minister Paul Martin in Iqaluit, it was pointed out that Nunavut has never had the investment in basic infrastucture that has been realized in other Canadian jurisdictions over the past century, yet we compete in the same economy while struggling with social and economic issues that result, in large part, from inadequate infrastructure....*

A major problem with infrastructure funding seems to lie in the per capita structure of the Canada Infrastructure Works Program. "Nunavut's allocation of only $2 million under the Canada Infrastructure Works Program is inappropriate. ... The formula financing agreement with Ottawa, which is theoretically meant to fill the gap between Nunavut's spending requirements and the revenue it can generate on its own, is inadequate."

The Committee recommends that the government, when designing and implementing infrastructure programs, take into account the special needs of areas such as the North where remoteness and small populations make per capita funding inappropriate.

The federal government can also support infrastructure investments through its tax policy. The Canadian Urban Transit Association and other witnesses encouraged the federal government to consider employer-provided transit

passes as tax-exempt benefits in recognition of the beneficial environmental and fiscal impact of increased public transit use in urban areas. These include improved air quality, reduced greenhouse gas emissions and traffic congestion, and reduced needs for new roads, bridges and parking facilities. According to witnesses heard by the Committee, a similar program in the United States has contributed to a 20% rise in transit use over the past five years.

> *[In the United States] it's actually considered the number one incentive for individuals to now use public transit and leave behind their single-occupancy vehicles. … It's one of these nice private/public partners. It has been extremely successful, which is why we undertook this in the first place.* **Amelia Shaw, Manager, Public Affairs, Canadian Urban Transit Association, National Task Force to Promote Employer-Provided Tax-Exempt Transit Benefits**

It is important that government not invest public funds in areas where private capital will do the job better.

CanWest Global Communications Corp.

> *We believe the federal contribution to the national infrastructure program should be increased when economic conditions permit. This would allow strategic investments to be made in infrastructure areas like water and waste water systems, solid waste management, energy management and transportation.* **John Clark, President Elect, Appraisal Institute of Canada**

Public/private partnerships offer viable options for the construction and maintenance of national roadways.

Canadian Automobile Association

In this respect, I feel the government should consider public/private partnerships. Municipalities and local authorities are quite anxious for those projects to go ahead quickly

Gilles Vaillancourt, Mayor of Laval

Another important issue regarding infrastructure involves the use of public-private partnerships. Infrastructure projects can be extremely expensive and governments might delay needed investments because of the impact on their fiscal positions. Public-private partnerships could provide more stable financing for infrastructure, shift the risks of infrastructure to the private sector and introduce some of private sector incentives to public projects.

Canada trails behind many other OECD countries in employing this strategy to fund infrastructure investments. Two examples of successful Canadian partnerships were the Confederation Bridge between Prince Edward Island and New Brunswick and Ontario's 407 Express Toll Route.

The Committee recognizes the need for infrastructure investment and recommends the federal government employ the public-private partnership model.

It is important not just to renew or rebuild infrastructure, but also to protect it. As the Insurance Bureau of Canada points out, Canadian governments now spend an average of $500 million per year to repair damage from extreme weather. Reducing our vulnerability to natural disasters is a legitimate component of any infrastructure spending.

PetroCanada

The privatization of PetroCanada began in earnest in 1991 when the federal government sold 20% of its shares in the company to the private sector. The sale of a 10% stake in 1993 and a further 52% stake in 1995 followed. Since then, the government has promised to sell its remaining 18% stake in PetroCanada when it can obtain a fair price and conditions warrant. The conditions now appear to be ripe for a divestiture.

The Committee therefore recommends that, given current economic conditions, the government sell its remaining stake in PetroCanada consistent with the government's longstanding commitment.

First Nations Issues

First Nations issues pose an especially difficult challenge for the government. As several eloquent presentations made clear to the Committee, Aboriginal peoples in Canada continue to suffer from severe poverty, a lack of adequate jobs, health, education, housing and infrastructure. This is made clear by the United Nations' Human Development Index. While Canada as a whole was rated the third-best country in which to live, Canada's First Nations reserves were ranked 63rd.

> *While we have begun the processes to rebuild our lives, our nationhood, and to revitalize our treaties, there is a need to do much more.* **Chief Perry Bellegarde, Federation of Saskatchewan Indian Nations**

> *The priorities of first nations people focus on improving our basic standard of living in terms of health care, housing, education and employment opportunities. We want to share the resources in Canada and ensure that first nations have equal opportunity to succeed in the future. We want increase our quality of life and standard of living. On the United Nations human development index we want to be number one like all Canadians aspire to achieve in this day and age.* **Chief Perry Bellegarde**

As several witnesses remarked, there remains a pressing need to expedite the treaty process and address the role of the *Indian Act*.

The issue of land claims is a basic question mark hanging over both First Nations and the Canadian government. This uncertainty makes businesses reluctant to invest in disputed lands, placing another constraint on First Nation

economic development. Other issues brought forward were the need for First Nations to be able to collect real property tax, and that interest rates on loans undertaken to complete the treaty process begin to accrue only after the successful completion of a treaty. Witnesses also called on the government to re-evaluate the level of funding that goes toward First Nations people. For example, the Committee heard that in Saskatchewan, a population explosion among Aboriginal peoples is of great concern.

> *The funding formula imposed by the Department of Indian and Northern Affairs Canada does not adequately reflect the growing population. We're losing ground. You can see in the slide there's a gap that's growing. The population is increasing very rapidly, but the dollars coming forward don't correspond. There's already a cap on housing, already a cap on post-secondary and there's just not enough there to meet the need and the gap continues to grow.* **Chief Perry Bellegarde**

> *Our submission speaks to building resilient first nations, eradicating First Nations poverty, and First Nations participation in the economy, a national strategy. They are addressed through enabling individuals and families which is about putting in place the social infrastructure through adequate housing, a safe environment, clean water and a greater access to health services comparable to average Canadians which will help remedy first nation individuals needs for their eventual participation in the economy.* **Grand Chief Matthew Coon Come, National Chief, Assembly of First Nations**

> *Again, we understand finance and interest rates and inflation and everything else, gross domestic product. We also understand there's only so much there, but you have to live within your means. We understand the deficit is a burgeoning thing. We have to be careful of that. At the same time, our position is we say if nothing changes now for first nations people in Canada, those high social costs of keeping Indians in jail, Indians on welfare, child poverty, child prostitution, are going to continue to escalate.* **Chief Perry Bellegarde**

The Committee recommends that First Nations issues continue to be a government priority and focus on improving the standard of living and quality of life of First Nations people, including education, infrastructure and housing.

Agriculture

Canada's agricultural sector is a key part of our economy. The agri-food industry employed 13% of Canadian workers and annually contributes almost 9% of Canada's GDP. In 2000, Canada exported $21.7 billion worth of agri-food products and generated a trade surplus of $5.2 billion. However, the Committee heard that Canada's agricultural community continues to experience hard times.

> *In rural Canada there's a problem. There's a lot of communities now that have lost tax bases through the loss of elevators, through the loss of branch lines, etc. and they're having a very difficult time to try to make ends meet. We are not a farm lobby group, but we are a community lobby group and it's because of the farm crisis that we have is that we're having a problem with our communities in rural Canada.*
>
> **Wayne Motheral, Association of Manitoba Municipalities**

> *I would also like to say that farmers have suffered a great deal, and not only this year. I can assure you and I know you've heard this before — we had an incredible drought in almost every province in Canada this year. Not only did we have a weather-related production disaster, but that fell on top of a protracted period of very low prices, especially in the grains and oilseeds industry, and a protracted period where our farmers have found themselves competing against government treasuries in other countries.* **Bob Friesen, President, Canadian Federation of Agriculture**

Witnesses, and the Committee, saw some hope for Canadian farmers in the shape of the June 2001 agreement in principal between Federal, provincial and territorial agriculture ministers on a national action plan to make Canada the world leader in food safety, innovation and environmental protection. According to the ministers' communiqué, the plan will:

> *The AAMD&C and its members recognize that the current crisis in agriculture is the result of more factors than just international farm subsidies. Other key factors include low prices for many agricultural commodities, depressed demand, increased in costs and adverse weather conditions.*
>
> **Alberta Association of Municipal Districts and Counties**

- Build on Canada's reputation as a producer of safe, high-quality food, by strengthening on-farm food safety systems and securing their international recognition, and through the development of identity-preserving tracking and tracing systems throughout the food chain.

- Enhance the sector's environmental performance through accelerated adoption of sound environmental practices on the farm.

- Improve farmers' ability to manage the inherent risks of farming through safety net programming.

- Use science to help the sector create economic opportunities with innovative new products, and to strengthen environmental stewardship and food safety.

- Renew the sector through programming for farmers that addresses their unique needs and helps them adapt to change.

Furthermore, "Ministers recognized there will always be circumstances where farmers are faced with unanticipated income declines as a result of weather, disease and other factors beyond their control. Federal and provincial governments are committed to the current review of farm safety nets, with the

aim of completion by 2002. They agreed that work on the long-term direction, in close consultation with industry, will build on safety net funding."

> *We have a lot of what I call micro-policies, but I believe the success of those policies is contingent on building very strong crosswalks between them. All too often in the past we developed policies that undermined the utility of other policies. We have to get much better at synchronizing or harmonizing these policies into an overarching Canadian agriculture policy, and I believe the Whitehorse agreement went a long way toward that.* **Bob Friesen**

The Committee supports the agriculture ministers' action plan, and looks forward to the completion of the current review of the farm safety net. We recommend that the government follow through on its commitment to this action plan.

Witnesses suggested several ways in which the government could aid farmers. These included changes in the capital cost allowance, tax incentives for environmental initiatives, greater attention to the effects of cost-recovery programs (see section on cost recovery), and the elimination of excise tax on agriculture-related fuels.

> *In fact, by our calculation, every 10% increase in farm fuel results in a potential 6% decrease in that farm income.* **Bob Friesen**

As the Committee noted in 1999, "The best solution is clearly to negotiate international reductions in farm subsidies, allowing the market to set prices and allowing competitive producers to succeed. Canadian producers are efficient and can successfully compete against other farmers in world markets. They cannot compete against the American and EU treasuries." Traditionally, the agricultural sector has been the most difficult sector to liberalize, with countries such as the United States and the European Union providing much larger agricultural subsidies than Canada. Furthermore, the Committee was told that the likelihood of the United States lowering its subsidies is minimal.

> *Even on a per-capita basis of the entire population, the U.S. spends over twice what we do on agriculture. In their last notification at the WTO, their 1998 notification, they notified 29% of the value of their farm gate production as subsidies. ... And in Canada it's 9%.* **Bob Friesen**

> *In the United States, for example, agricultural aid amounts to $350 per capita. In the European Union, it is $336. Canada brings up the rear with half that amount, or nearly $163 per capita.* **Serge Lebeau, Deputy Director, Agricultural Research and Policy, Union des producteurs agricoles du Québec**

While the Committee supports the government's goal of liberalizing trade in agriculture, we reiterate our 1999 PBC recommendation: "The Committee believes that the federal government should be mindful of the fact that other countries do not always follow our lead in international trade matters. When they do not, there can be significant consequences for Canadians. In such cases, the government has a certain obligation to those adversely affected as a result."

Foreign Assistance

In its 1999 Pre-Budget Consultation report, the Committee included a section on foreign aid. In it, we concluded "that providing development assistance to developing countries can benefit the global economy. We also feel it is important for Canada to focus more firmly on human development initiatives as well as on long-term poverty reduction."

We continue to hold this view. As the North-South Institute wrote in its submission to the Committee, "If as a nation we ignore the larger challenges posed by global poverty, widespread conflict, and issues such as climate change, our best efforts to promote the interests of Canada and Canadians will be to little avail."

This year, we heard that Canada has slipped to 17th place among aid donor countries, down from 12th in 1999. As a percentage of GDP, Canada's development assistance is 0.28%, below the target of 0.7% of GDP set by the a United Nations Committee chaired by former Prime Minister Lester Pearson. More immediately, the crisis in the Middle East is making the need for international humanitarian assistance even more pressing.

> *In the light of the crisis, we will urgently need, for example, to increase our humanitarian and emergency assistance as a direct consequence, because of the plight of up to 5 million Afghan people suffering from a long drought and starvation. Their plight and that of millions of their compatriots can only be made worse by the dislocations caused by impending war, adding to an already non-sustainable refugee population in Afghanistan and Pakistan.* **Roy Culpepper, President, North-South Institute**

The Committee notes that the government has already allocated $16 million to deal with the crisis in Afghanistan.

In sum, the Committee reiterates its contention that providing development assistance to developing countries can benefit the global economy.

The Committee notes that if the Official Development Assistance (ODA) target of 0.7% of GDP is to be meaningful, the government should establish a timetable outlining progress toward that goal.

Green Economy

> *The environment … is rarely costed internally, and, as a consequence, market forces seem to be the enemy of the environment. But they don't have to be. With a little ingenuity, we can harness market forces so as to actually benefit the environment.* **Stuart Smith, Chair, National Round Table on the Environment and the Economy**

Measures that improve our the physical environment are another key input into the productivity agenda and fit with this committee's long-time emphasis on improving the standard of living. Until recently, environmental policy consisted almost exclusively of rules and regulations designed to alter the behaviour of firms and individuals with respect to actions that have an impact on the environment.

Environmental industries in sectors such as pollution prevention, remediation and renewable energy that enhance economic productivity have tremendous job creation potential, while protecting the health of Canadians and ensuring that we meet our international obligations. A shift toward these cleaner emerging sectors, and away from activities that compromise environmental integrity, requires clear budgetary signals from government that it is committed to taking Canada into the 21st century with regard to environmental protection.

Green Budget Coalition

This reliance upon "command-and-control" mechanisms is now being questioned, in part because of a broad trend away from direct government intervention in the economy. However, the concerns that motivated environmental rules and regulations have not disappeared. If anything, they have become more pressing. As a result, in the last few years policy-makers have started to take a serious look at a set of policy tools grouped under the rubric of "green economics." These tools hold out the promise of, on the one hand, addressing environmental concerns while at the same time keeping direct government intervention to a minimum.

In the academic world, green economics usually refers to the application of standard economic principles and tools — and especially the use of the market and pricing mechanisms — to the study and policy analysis of environmental issues. The idea is to correct market failure so that market mechanisms can contribute to the efficient allocation of resources. This means, to some extent, letting individuals and firms decide how to meet environmental goals. One of the major tasks of green economics is to find ways of making prices reflect the full societal cost of production and make markets work better, which often

means factoring in negative externalities such as pollution.[58] Absent such government intervention, pollution will tend to be "over-produced" because there is little or no incentive to limit its production. By internalizing these externalities to individual decision making these externalities, a more efficient outcome can be achieved. As Philippe Crabbé, of the Institute of the Environment and a participant at a PBC environmental roundtable, put it, "The market price for natural capital is too low. It is too low because of its components are totally unpriced, such as clean air for example, or do not include their full environment costs, such as fuel for example."

Furthermore, a market-based system leaves it up to the companies to decide which of them is best able to be most "green" and which technology to use to achieve that end. Under a rules and regulation approach, the government is essentially taking a bet that the technology or solution it's imposing is the correct one. Under a market-based approach, there are many possible solutions.

> *[B]y increasing our energy efficiency, encouraging energy conservation and promoting sustainable renewable energy production … we can reduce energy demand, save consumers money, distribute the benefits throughout Canada and reduce emissions.*
>
> **David Suzuki Foundation**

From the policy-maker's perspective, green economics usually means making use of the tax system. However, it can also mean using pollution permits, charges and similar market-based mechanisms. The Committee's interest in green economics led it to hold two roundtables on the subject in the spring of 2000. Additionally, we also heard from several environmental groups in the course of our regular pre-budget consultation hearings. These witnesses suggested a number of proposals that had as their goals an improvement in Canada's environmental well-being. These fell under three broad categories: tradable emissions permits; tax incentives to encourage environmentally friendly technologies and energies, and brownfields cleanup; and improvements to Canada's national parks. Several groups, including the Green Budget Coalition, suggested that the government undertake a "Clean Canada Fund" that would fit in with Treasury Board's current inventorying of federal toxic sites. **The Committee wishes to express its support for Treasury Board's work in inventorying federal toxic sites, and calls on the government to assure that it has the necessary funds and tools to identify and begin working on the cleanup of these sites.**

Emissions Trading

> *The much more visionary long-term integrated cost-cutting way, however, would actually be to start to reflect the price of carbon in the prices that we have on the marketplace. It's much more politically difficult to do, but it actually starts to send the right signal. What you need is one instrument to do it instead of designing 100 types of tax breaks to create incentives for 100 types of different behaviours.* **Stephanie Cairns, Senior Policy Analyst, Pembina Institute**

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58 Technically, an externality — whether positive or negative — is said to exist whenever some of the variables that affect one decision-maker's utility or profit are under the control of another decision-maker. Thus, in the case of pollution, the firm responsible for the emissions "controls" a variable, i.e. pollution, that affects the utility, or well-being, of others, namely the people who breath the polluted air.

Tradable emissions permits represent potentially one of the most useful green market measures. Under a tradable emissions scheme, endorsed by the Kyoto Protocol, a cap is set on the amount of pollution in a system and firms trade emissions permits based on the amount of pollution they produce. Thus a firm that is producing pollution over and above its limit would have to buy permits from a cleaner firm producing under its limit. In way overall emissions could be capped while keeping market-distorting effects to a minimum. Since 1996, Canada has had tradeable permit systems for CFCs, and pilot projects are underway for CO_2 and a host of other related industrial by-products. As the Pembina Institute noted in its submission to the Committee, implementing an emissions permits system raises several difficult technical issues, such as how exactly would the permits be traded and where, who will be covered, what levels to set pollution at, and the grandfathering of existing companies ﬂ should companies be initially allocated a set of permits free of charge or should they be forced to bid for them. The Committee heard that emissions trading projects are moving along slowly.

Indeed, the Committee was told that it takes time for companies to learn how to work under market-based emissions system and countries that use these tools first will generally provide their economy with a head start over late-comers. This head start becomes all the more important if environmental concerns assume the same kind of importance now accorded to national security. For example, if climate change requires swift action, countries that have taken a long-view and planned accordingly will be better placed to address any future environmental crises.

> *Those companies who live in countries that have their own domestic system will get the efficiencies from being able to trade among themselves. And if we compete with those countries and do not have our own system, our companies will not get those efficiencies. So it's important for this Committee to consider the fact that to remain competitive we will need to have our own domestic system in order for our companies to be able to compete with others. Theoretically you could always simply use command and control in Canada. And if Canada fails to meet its obligations the Canadian government could buy credits on the open market. But then our companies will have failed to have the benefit that comes with innovating in the purchase and sale of credits among themselves.* **Stuart Smith**

The Committee recommends that the government expand and expedite its research into the appropriate computer modelling of competing emissions trading systems.

Tax Measures

> *There's no question that a level playing field between existing sources of energy, fossil-fuel based, and alternative sources of energy is not good enough. We have to have — during a transition period while the new technologies, the new fuels, establish themselves commercially — a tilted playing field in favour of the renewables.* **Stuart Smith**

Environmentally friendly tax measures can either discourage the use of dirty fuels through higher excise, income taxes and lower capital-cost allowance (CCA) rates or, conversely, encourage the demand for and supply of cleaner fuels through tax credits, lower excise taxes, higher CCA rates and more generous income-tax treatment.

The Committee was told that the tax system still provides considerable advantages to dirtier fossil fuels, a legacy of Canada's resource-based economy. Proposed measures to address this issue included replacing the existing excise tax on motor fuels by applying a broad-based revenue-neutral (relative to the existing excise tax) environmental excise tax on all fuels and removing favourable corporate tax treatment for the mining, oil and gas and chemical industries. A third proposal was that the government consider increasing taxes on dirty fuels such as coal while reducing taxes on environmentally friendly sources of energy. By so doing, the government could achieve its environmental objectives without giving up tax revenue.

> *When we're talking about putting new taxes in place on pollutants, we're quite open and would encourage people to look at the reduction of taxes in other areas which might stimulate economic activity. We're looking for revenue-neutral packages that can help us change the signals that we're sending into the economy, essentially tax the bads and decrease taxes on the goods.* **Robert Hornung, Policy Director, Pembina Institute**

Energy tax credits for "green power" (which is presently at a cost disadvantage when compared to traditional forms of energy such as oil and natural gas) can fall on either the demand or supply side. On the demand side, Suncor Energy suggested to the Committee that the government create a Consumer Green Energy Credit which would cover a portion of the higher cost associated with the purchase of green power from electricity providers as a means of increasing currently low demand for green power. On the supply side, proposals included extending the broader Canadian Renewable and Conservation Expense (CRCE) treatment to a wider range of expenses, an Investment Tax Credit (ITC) under the *Income Tax Act* on capital costs and or a Production Tax Credit (PTC).

> *Alternative and renewable energy should be an integral part of the solutions to secure sufficient and reliable supply of power so critical to business today.*
>
> **Suncor Energy**

The Committee also heard that improving the energy efficiency of Canada's buildings could make a significant impact on our Kyoto obligations. Specific proposals included an investment in performance-based grants for energy-efficient retrofits of homes, a national, community-based home retrofit advisory services program, and a national better buildings fund. The Committee heard positive reports of a Toronto-based program similar to a better buildings fund.

> *At a world level it was recognized that retrofitting of buildings was a fundamentally profitable exercise. Which would then lead you to ask the question, why is it not being done [in Canada]? What we found was, we needed to educate both the decision makers in the public sector and the financial community, the investment community, to come together and form these kind of partnerships.*
> **Jack Layton, President, Federation of Canadian Municipalities**

> *One way we did it with the green-investment fund, and with the Toronto atmospheric fund and others, was to put some money on the table to say, we're willing to take the risk here for a part of this kind of work. What we found is, the leverage has been fantastic. For every dollar that the investment fund is putting forward, we're getting $10 of private money coming in to match. Not only that, we're not getting any defaults on our loans. It's very exciting.*
> **Jack Layton**

The Committee recommends that the government consider policies that would encourage the use of environmentally friendly energies and technologies.

Completion of the National Parks System

Canada's national parks represent some of our most precious natural assets. Not only do they help contribute to biodiversity, habitat and watershed protection, they also provide significant economic benefits in the form of tourism.

> *An investment in the protection of Canada's biodiversity through investments in national parks is an investment in the ecosystem services such as clean water for downstream communities, and an economic development and diversification of local communities.*
> **Robert Hornung**

In the past two Speeches from the Throne, the government has stated its intention to complete the National Parks System and restore the existing parks to ecological health. Over its previous two mandates, the government has created seven new national parks. Still, as witnesses reminded the Committee, much remains to be done. Completing the National Parks System will require 14 new national parks and 26 marine conservation areas. And, according to Panel on the Ecological Integrity of Canada's National Parks has concluded that existing national parks face serious threats, including habitat loss, air pollution, pesticides, and overuse by visitors.

Through the national parks program, representative examples of Canada's natural regions are protected, their value communicated to the public and services and facilities are provided so that people may use and enjoy them.

Tourism Industry Association of Canada

Although efforts are being made to improve environmental quality of coasts and seas in Canada, degradation of ocean environments has continued. The lack of an integrated approach to using this shared resource has often caused conflict among economic, environmental and social objectives. **Canadian Parks and Wilderness Society**

And while negotiations to complete the parks system continue apace, witnesses told the Committee that a lack of funds is responsible for the stalemate in parks creation and maintenance. The nature of the problem facing Canada's parks is that, much like investments in Canada's physical infrastructure, the longer we wait to fix the problem, the greater the degradation and the greater will be the final bill.

You don't save money by putting off repairs to our existing parks, to the infrastructure that Canadians rely on to use them safely. If you don't repair the shingles on the roof of your house, you're going to have a rotten roof and you're going to have a lot more expense. The same principle applies in many cases to roads and bridges, and the like, in our parks like Jasper. **Sam Gunsch, Executive Director, Edmonton Chapter, Canadian Parks and Wilderness Society**

Funding is also required to address the urgent situation of the declining health of our existing national parks. Unfortunately even good legislation, and we have excellent legislation in the National Parks Act, is not enough to protect these habitats and the species that live in them. Parks Canada requires the capacity to properly manage visitor impacts, to conduct research and

monitoring and to participate in regional land use planning processes that will ultimately affect its ability to protect natural resources within parks. **Christie Spence, Co-manager, Wildlands Campaign, Canadian Nature Federation**

The Canadian Nature Federation estimates that over the next five years $165 million is needed to plan, negotiate and begin to develop a dozen new national parks and marine conservation areas, and $328 million "to reverse the decline in the health of park ecosystems."

While the Committee is mindful of the extra obligations that national security are placing on Canada's bottom line, we recommend that the government complete the restoration of our national parks and the completion of the National Parks System, as fiscal conditions permit and in the interim protect from encroachment those lands that would be parks.

> *Working with private landowners to protect private lands is essential to meeting the commitments made in the Throne Speech and other government conservation priorities.*
>
> **Nature Conservancy Canada**

Ducks Unlimited presented the Committee with a proposal for a national conservation cover incentive program (CCIP) to protect marginal farmlands. Their proposal aims to reduce tillage of environmentally sensitive areas including areas with marginal or highly erodible soils, wetlands, and riparian areas (that is, areas where waterways and land meet). According to Ducks Unlimited, under the proposed CCIP, "landowners would receive government-led financial incentives for restoring or protecting areas where land meets water and converting cultivated marginal land to permanent vegetation, such as grassland, for non-agricultural use."[59] Ducks Unlimited estimates the total cost of the program at $90 million.

In the past, ecosystems services, we feel, have not been fully captured in commercial markets or adequately quantified in terms of comparable economic services or manufactured capital. And, in fact, they've been given too little weight in Canadian policy decisions. And we're hoping through our demonstration of the net benefits associated with this program that we can demonstrate that this program will, in fact, provide ecosystem services to society. **Brian T. Gray, Director, Conservation Programs, Ducks Unlimited Canada**

> *We urge the federal government to recognize that the increasing pressures being placed upon our Great Lakes is an issue that touches the very fabric of our existence – an environment that includes clean air and clean water.*
>
> **Niagara Peninsula Conservation Authority**

Such a plan is in keeping with the idea behind green economics, that prices should account for positive and negative external effects, such as the environmental degradation that comes from using marginal farmlands. In a similar vein, the Committee heard of the need to restore degraded fish habitats in the Great Lakes Basin. As Conservation Ontario remarks, "Healthy

59 Ducks Unlimited, "Ducks Unlimited Proposal Calls for Great change on Canada's Agricultural Landscape," letter, 30 October 2001.

watersheds are key to healthy great lakes." They propose a $30 million fish habitat endowment fund that would provide benefits to the commercial, sport and aboriginal fishery industries, while promoting a better environment.

The Committee supports measures to clean up the Great Lakes basin and protect fish habitats and recommends that the government study the consequences and feasibility of the two proposals.

Cost Recovery

As part of its Program Review initiative, the federal government instituted a new policy of cost recovery for a variety of services. In part, this was a response to budget-cutting measures but it was also part of the initiative to "get government right." Under Cost Recovery, departments were to streamline their operations and eliminate those that were not needed, with the understanding that clients would pay for some of the services they receive.

The arbitrariness and increasing costs of government fees and penalties has been a growing concern to the business community.

Canadian Federation of Independent Business

This is not normally the way government operates. As a general rule, the federal government collects revenues from Canadians and provides them with a variety of services, not linked to their contribution to general government revenues. This is due to the fact that government programs are generally designed to provide benefits to the public as a whole.

In some cases, however, government services deliver private benefits. In such a case, the government is like a private firm. Unlike the typical business firm, however, the government tends to be a monopoly provider of a service. And unlike the typical monopolist, the government has the power to order customers to purchase a particular product.

In its 1999 Pre-Budget Consultation, the Committee noted growing concerns surrounding the government's Cost Recovery and Charging Policy, which sets out a number of major principles for departments and agencies to apply when setting user charges. The Office of the Auditor General seconded these concerns, noting "that government accounting systems are typically not designed to provide costing information needed to justify the levels of user fees charged."

The CFA believes there is room for significant improvement within the existing cost recovery program structure…

Canadian Federation of Agriculture

In the spring of 2000, the Committee issued *Challenge for Change*. The report concluded that while the cost recovery policy is generally sound, it is not being implemented consistently, and that departments have been left to their own devices in designing and implementing user charges. In an attempt to address these problems, the Committee issued 12 recommendations, which called for:

- **A red-tape commission to evaluate and streamline regulations**
- **A parliamentary committee to conduct a government-wide study of the cost recovery policy;**
- **Better supervision and monitoring of departmental user-charge programs by Treasury Board; and**

- **Better provision of user-fee information and how they are calculated to all interested parties.**

The government continues to support the idea that cost recovery in principle is a useful tool for federal cost reduction. The Canadian Dehydrators Association is concerned that user fees are negatively affecting Canadian agricultural competitiveness.

Canadian Dehydrators Association

Again this year, the Committee heard that user charges remain a problem, both for businesses and individuals. A poor regulatory system negatively affects Canadian competitiveness by increasing costs and wait times for approvals. On the business side, Jean Szkotnicki (President, Canadian Animal Health Institute) told the Committee that "Canada's system is less responsive, more outdated, and more costly than our trading partners. Canadian businesses need regulatory relief if we want them to remain competitive." Citing the example of approval delays at Health Canada's Bureau for Veterinary Drugs (BVD), she said: "This delay is not the result of additional scrutiny. In fact the BVD has a product submission on average of four years after initial screening before they even begin to review it. The BVD's poor performance hurts industry, competitiveness, and denies our customers, livestock producers and veterinarians, access to the safer more targeted pharmaceuticals used by U.S. and foreign competitors."

"Health Canada, even after years of requests, has no plans for improving the performance of the BVD. Treasury Board, which is responsible for monitoring cost recovery, has not implemented even one of the recommendations you made more than 15 months ago. I believe that the next step must be to address the concerns about regulatory burden within the budgetary plan context."

Regular review of all programs should be ingrained in a government managerial culture that incentives termination of those programs that no longer pass a rigorous and frequently applied value test to Canadians.

CanWest Global Communications Corp.

The Insurance Bureau of Canada also remarked on the need for continued streamlining and harmonizing of federal and provincial regulatory practices to remove obstacles to competition and innovation. According to its brief, Canada should have a regulatory system that is both efficient and effective and delivers good value for both the industry and its customers.

The Committee shares Ms. Szkotnicki's and the Insurance Bureau of Canada's concerns over cost recovery and the burden of regulations, and reiterates its call for the government to institute better oversight of the cost of regulations and user-charge programs by reporting on them annually with the budget. The application of these must not be undertaken in isolation but must be consistent with the government's overall policy objectives, namely the international competitiveness of Canadian industry and an improvement in living standards via enhanced productivity.

APPENDIX A
LIST OF WITNESSES

THURSDAY, SEPTEMBER 20, 2001 (OTTAWA)

Aerospace Industries Association of Canada
Peter Smith, President and Chief Executive Officer

Canadian Employee Relocation Council
Bruce Atyeo, Co-Chair, Government Relations Committee
Jacques Prévost, Co-Chair, Government Relations Committee

Ottawa Centre for Research and Innovation
Wes Biggs, President, Edgeflow
Mike Darch, Special Adviser to the President, Ottawa Economic Development, Division of OCRI

Pratt & Whitney Canada International Inc.
Gilles Ouimet, President

TUESDAY, SEPTEMBER 25, 2001 (OTTAWA)

Business Council on National Issues
Thomas P. d'Aquino, President and Chief Executive Officer
David Stewart-Patterson, Senior Vice-President, Policy and Communications
Sam Boutziouvis, Vice-President, International Trade and Global Economics

Business Tax Reform Coalition
Fiona Cook, Vice-President, International Trade and Government Relations, Forest Products Association of Canada
Barry Lacombe, President, Canadian Steel Producers' Association

Canadian Chemical Producers' Association
Richard Paton, President and Chief Executive Officer

Canadian Co-operative Association
Mary Pat MacKinnon, Director of Policy and Government Affairs
Lynne Toupin, Chief Executive Director

Canadian Federation for Promoting Family Values
Michael Gorman, President

Canadian Nature Federation
Christie Spence, Co-Manager, Wildlands Campaign

Canadian Real Estate Association
Pierre Beauchamp, Chief Executive Officer
David Humphreys, Federal Affairs Advisor
Gregory Klump, Senior Economist

Canadian Resource Centre for Victims of Crime
Steve Sullivan, President and Executive Director

Green Budget Coalition
Robert Hornung, Policy Director, Pembina Institute for Appropriate Development
Joan Kuyek, Executive Director, Mining Watch Canada
Sara Wilson, Manager

Hotel Association of Canada
Anthony P. Pollard, President

Mining Association of Canada
Dan Paszkowski, Vice-President, Economic Affairs
Gordon Peeling, President and Chief Executive Officer

National Science Organization Working Group
Howard Alper, Past Chair, Partnership Group for Science and Engineering

"Union des producteurs agricoles du Québec"
Serge Lebeau, Deputy Director, Research and Agriculture Policy

World Wildlife Fund Canada
Julia Langer, Director, International Programs

WEDNESDAY, SEPTEMBER 26, 2001 (OTTAWA)

Canada Foundation for Innovation
Carmen Charette, Senior Vice-President
David W. Strangway, President and Chief Executive Officer

Canadian Library Association
Vicki Whitmell, Executive Director

Canadian Museums' Association
Francine Brousseau, President
John McAvity, Executive Director

Community Foundations of Canada
Monica Patten, President and Chief Executive Officer

Heritage Canada Foundation
Brian P. Anthony, Executive Director
Douglas Franklin, Director, Government and Public Relations

THURSDAY, SEPTEMBER 27, 2001 (OTTAWA)

Association of Fundraising Professionals
Nicholas Offord, President of the Foundation
James Pitblado, Chair of the Board, Hospital for Sick Children

Canadian Conference of the Arts
Philippa Borgal, Associate Director
Megan Williams, National Director

National Council of Women of Canada
Shirley Browne, Vice-President
Maria Neil, Convenor of Economics

National Task Force to Promote Employer-Provided Tax-Exempt Transit Benefits
Donna-Lynn Ahee, Project Manager
Amelia Shaw, Manager, Public Affairs, Canadian Urban Transit Association (CUTA)

TUESDAY, OCTOBER 2, 2001 (OTTAWA)

Association of Universities and Colleges of Canada
Robert J. Giroux, President and Chief Executive Officer
Robert Lacroix, Chairman, AUCC Board of Directors, Chief Administrative Officer, University of Montreal

Canadian Advanced Technology Alliance
David Paterson, Executive Director

Canadian Animal Health Institute
Jean Szkotnicki, President

Canadian Association of Research Libraries
Tim Mark, Executive Director
Paul Wiens, University Librarian, Queen's University

Canadian Consortium for Research
Don McDiarmid, Director, Professional Affairs
John C. Service, Chair

Canadian Dental Hygienists' Association
Salmy Lavigne, President
Susan Ziebarth, Executive Director

Canadian Film and Television Production Association
Guy Mayson, Senior Vice-President, Operations and Membership Services
Elizabeth McDonald, President and Chief Executive Officer

Canadian Healthcare Association
Sharon Sholzberg-Gray, President and Chief Executive Officer

Canadian Institutes of Health Research
Allan Bernstein, President

DRI-WEFA Canada Inc.
Dale Orr, Senior Vice-President and Chief Economist, Canadian Services

Natural Sciences and Engineering Research Council of Canada
Thomas A. Brzustowski, President

Social Sciences and Humanities Research Council of Canada
Marc Renaud, President

WEDNESDAY, OCTOBER 3, 2001 (OTTAWA)

Canada Customs and Revenue Agency
The Honourable Martin Cauchon, Minister of National Revenue and Secretary of State (Economic Development Agency of Canada for the Region of Quebec)
Denis Lefebvre, Assistant Commissioner, Customs Branch
David Miller, Assistant Commissioner, Assessment and Collections Branch
Harvey Beaulac, Assistant Commissioner, Appeals Branch

National Anti-Poverty Organization
Bonnie Morton, President
Bruce Tate, Executive Director

National Research Council of Canada
Arthur J. Carty, President

North-South Institute
Roy Culpeper, President

THURSDAY, OCTOBER 4, 2001 (OTTAWA)

Appraisal Institute of Canada
John Clark, President Elect

Building and Construction Trades Department
Phil Benson, Staff Representative
Robert Blakely, Director of Canadian Affairs

Canadian Association of Insurance and Financial Advisors
Bill Strain, Chair, Taxation, Conference for Advanced Life Underwriting (CALU)
David Thibaudeau, President and Chief Executive Officer

Canadian Construction Association
Michael Atkinson, President
Jeff Morrison, Director of Communications

Canadian Development Institute
Nicholas J. Patterson, Executive Director

Canadian Federation of Agriculture
Bob Friesen, President

Insurance Bureau of Canada
Paul Kovacs, Senior Vice-President, Policy Development and Chief Economist
Suzanne Sabourin, Executive Director, Government Relations

FRIDAY, OCTOBER 5, 2001 (OTTAWA)

Department of National Defence
The Honourable Art Eggleton, Minister of National Defence and Minister responsible for Emergency Preparedness Canada
Lt-General George E. MacDonald, Vice-Chief of Defence Staff
R.M. (Bob) Emond, Assistant Deputy Minister, Finance and Corporate Services

MONDAY, OCTOBER 15, 2001 (TORONTO)

Air Line Pilots' Association
Vincent Charron, Pilot Representative
Steve Linthwaite, Pilot Representative
Brian Shurry, Pilot Representative

Association for Healthcare Philanthropy
Michael Farrell, Chair
Diane Lister, President and Chief Executive Officer, Hospital for Sick Children Foundation

BMO, Nesbitt Burns Inc.
Donald K. Johnson, Vice-Chairman

Campaign Against Child Poverty
Caroline DiGiovanni, Director, Public Affairs, Catholic Children's Aid Society
Jacqueline Maund, Coordinator
Gerald Vandezande, Spokesperson

Canadian Alliance for Children's Healthcare
Jennifer Espey, Delsys Research Group Inc.
Nora Spinks, President, University of Western Ontario
Jean-Victor, Wittenberg, Chair, Task Force on Working Parents with Sick or Disabled Children

Canadian Association for Community Living
Connie Laurin-Bowie, Director, Policy and Programs
Diane Richler, Executive Vice-President

Canadian Association of Fire Chiefs
Donald F. Warden, Immediate Past President

Canadian Bankers' Association
Dan Marinangeli, Executive Vice-President and Chief Financial Officer
Kelly Shaughnessy, Vice-President, Banking Operations

Canadian Centre for Philanthropy
Patrick Johnson, President and Chief Executive Officer

Canadian Hardware and Housewares Manufacturers' Associations
Vaughn Crofford, President

Canadian Pensioners Concerned Incorporated
Mae Harman, Past President, Ontario Division, Chair, Economic Concerns Committee
Gerda Kaegi, Immediate Past President, Ontario Division, Vice-President, National Association

Canadian Professional Sales Association
Terry Ruffel, President

Canadian Restaurant and Food Services Association
Becky McKinnon, President, Timothy's World Coffee
Joyce Reynolds, Senior Director, Government Affairs

Canadian Retail Building Supply Council
Stephen Johns, Immediate Past President

Canadian Retail Hardware Association
Robert Elliott, President

Canadian Tooling and Machining Association
James D. Bowman, J.P. Bowman Ltd. (Tool and Die), CTMA Director and Chair ATTC
Ed Glover, President, Harbour Advanced Machining Ltd., President, CTMA
Les Payne, President, Universal Pattern Co. Ltd., Vice-President, CTMA

Canadian Vehicle Manufacturers' Association
Mark Nantais, President
David Penney, General Director, Tax and Customs, General Motors of Canada
Michael Sheridan, Director, Government Relations, Ford Motor Company of Canada
Tayce Wakefield, Vice-President, Corporate and Environmental Affairs, General Motors of Canada

Cement Association of Canada — Ontario Chapter
Lynn Davidson, Environmental Manager, St. Mary's Cement, Bowmanville Plant
Wayne Dawson, Vice-President, Ontario Region
Brian Gent, Vice-President, Marketing, ESSROC Canada Inc.

Certified Management Accountants of Canada
Robert Dye, President, CMA Canada
Richard Monk, President, CMA Canada—Ontario

Citizens for Public Justice
Greg DeGroot-Maggetti, Socio-economic Concerns Coordinator

Crop Life Canada
Charles Milne, Vice-President, Government Affairs

Greater Toronto Services Board
Gordon Chong, Chairman

Horse Racing Tax Alliance of Canada
Michael Van Every, Chartered Accountant, PricewaterhouseCoopers
Catherine Willson, Willson and Associates, Barristers and Solicitors

Multi-Employer Benefit Plan Council of Canada
William Anderson, President
Thomas Levy, Member of the Board

Nature Conservancy Canada
John Lounds, President
Thea Silver, Director, Government Relations

Ontario Non-Profit Housing Association
Noreen Dumphy, Manager, Public Affairs

Ontario Coalition for Better Child Care Network
Mary-Anne Bédard, OCBCN Representative
Susan Sperling, OCBCN Representative

Ontario Municipal Employees Retirement System
Walter Borthwick, OMERS Board Chair
Dale E. Richmond, President and Chief Executive Officer

Toronto Training Board
Peter Landry, Business Director
Mike McCue, Labour Co-Chair
Rebecca Sugarman, Women's Director

Toronto Transit Commission
David Miller, Commissioner of TTC and Toronto City Councillor
Vincent Rodo, General Manager

University of Toronto
Heather Munroe-Blum, Vice-President, Research and International Relations

University of Western Ontario
David Laidler, Department of Economics

Writers' Union of Canada
Barry Grills, First Vice-Chair

As Individuals
Margaret Dinsdale
Leslie Whicher

TUESDAY, OCTOBER 16, 2001 (TORONTO)

Association of Canadian Pension Management
Keith Ambachtsheer, President Elect
Priscilla Healy, Chair, Advocacy and Government Relations
Andrea Vincent, Director

Best Medicine Coalition
Pat Kelly, Chair

Campaign 2000
Laurel Rothman, National Coordinator

Canada Council United Brotherhood of Carpenters and Joiners of America
Charles (Bud) Calligan, President
Eddie Thornton, Executive Director, Local 27

Canadian Association of Not-for-Profit RESP Dealers
Kevin Connolly, Co-Chair
Tom O'Shaughnessy, Co-Chair

Canadian Ecumenical Justice Initiatives
Dennis Howlett, Team Leader, Canadian Justice Cluster, KAIROS
Maylanne Maybee, Co-Chair, Canadian Social Development Program Committee, KAIROS

Canadian Lightweight Materials Research Initiative
William Harney, Director of New Product Development, Magna International
M.J. Wheeler, Chairman, Industry Steering Committee

College of Dental Hygienists of Ontario
Kathy Walker, President

Co-operative Housing Federation of Canada
Donna Charbonneau, Board Member
Mark Goldblatt, Senior Consultant

Direct Sellers' Association of Canada
W. Millar, Tax Counsel, Millar, Wyslobicky, & Kreklewetz
Paul Thériault, President

Greater Toronto Home Builders' Association
Peter Gilgan, President and Chief Executive Officer, Mattamy Homes
Jim Murphy, Director, Government Relations
Patrick O'Hanlon, President

Greater Toronto Transit Authority
W.M. (Bill) Jenkins, Director
Gary McNeil, Managing Director

Group Health Centre
David Murray, President and Chief Executive Officer, Sault Ste. Marie and District Group Health Association

Hospital for Sick Children Foundation
Manuel Buchwald, Chief of Research
Diane Lister, President and Chief Executive Officer

Multiple Sclerosis Society of Canada
Deanna Groetzinger, Vice-President, Communications

National Housing and Homeless Network and Toronto Disaster Relief
Michael Shapcott, Co-Chair, NHHN

National Professional Association Coalition on Tuition
William Easton, Chair

Ontario Hospital Association
David MacKinnon, President

Star Navigation Systems
Viraf Kapadia, Chairman and Chief Executive Officer
Reg Tanner, Manager, Network Services, MFP Financial Services
Hilary Vieira, President

Toronto Board of Trade
M. Elyse Allan, President and Chief Executive Officer
Terri Lohness, Chief Economist

Toronto and Region Conservation Authority
Dick Hunter, General Manager, Conservation Ontario
Peter Krause, Chairman of the Board
Craig Mather, Chief Administrative Officer

Toronto Disaster Relief Committee
Musonda Kidd, Administrative Assistant

Urban Development Institute/Ontario
Paul Mondell, Chair
Neil H. Rodgers, President

As an Individual
Joseph Polito

WEDNESDAY, OCTOBER 17, 2001 (MONTREAL)

Canadian Institute of Chartered Accountants
Pierre Brunet, Vice-Chair of the Board of Directors

Canadian Parks and Wilderness Society (Montreal)
Catherine Guillemette, Member of the Board

Canadian Taxpayers' Federation
Walter Robinson, Federal Director

"Centrale des syndicats démocratiques"
Jean-Guy Ouellet, Legal Counsel
François Vaudreuil, President

Chamber of Commerce of Quebec
Michel Audet, President

Confederation of National Trade Unions (CSN)
François Bélanger, Researcher, Staff Relations
Claudette Carbonneau, First Vice-President

Forest Products' Association of Canada
Frank Dottori, President and Chief Executive Officer, Tembec Inc.
Ashok Narang, Chairman, "Papier Masson Ltée"

"Front d'action populaire en réaménagement urbain"
Lucie Poirier, "Organisatrice au FRAPRU"
François Saillant, Coordinator

McGill University
Pierre Bélanger, Vice-Principal, Research
Morty Yalovsky, Vice-Principal, Administration and Finance

Municipality of Iqaluit
Rick Butler, Chief Administrative Officer
John Matthews, Mayor

Shipping Federation of Canada (The)
Gilles J. Bélanger, President and Chief Executive Officer
Ivan Lantz, Director, Marine Operations
Anne Legars, Director, Government Affairs

Tourism Industry Association of Canada
Charles Lapointe, President and Chief Executive Officer, Tourism Montreal, Vice-Chairman, TIAC, Policy Committee
Christena Keon Sirsly, Chief Strategy Officer, VIA Rail Canada Inc., Vice-Chairman, TIAC Board of Directors

THURSDAY, OCTOBER 18, 2001 (HALIFAX)

Annapolis Valley-Hants Community Action Program for Children
Pauline Raven, Regional Coordinator

Cement Association of Canada — Atlantic Region
Alicje Cornelissen, Director, Environment and Building Sciences
Bill E. Dooley, Vice-President
Ted Hounslow, Sales Manager, Atlantic Region, Lafarge Corporation

Childcare Connections Nova Scotia
Elaine Ferguson, Executive Director

Dalhousie Legal Aid Services
Jeanne Fay, Community Legal Worker

Dartmouth Literacy Network's Board of Directors
Calinda Brown, Representative

Federation of New Brunswick Faculty Associations
Claude Dionne, President
Desmond Morley, Executive Director
Hans Vanderleest, Professor

Independent Living Resource Centre
Cecilia Carroll, Chairperson
Lois Miller, Executive Director, Metro Resource Centre for Independent Living

MacKillop Centre for Social Justice
Mary Boyd, Director

Newfoundland-Labrador Federation of Co-operatives
Glen Fitzpatrick, Managing Director

Nova Scotia Association of Health Organizations
Robert Cook, President
George Kephert, Director, Population of Health Research Unit
Peter Mackinnon, Chief Executive Officer, Colchester East Hants Health Authority, Member of the NSAHO Board of Directors and Chair of the Working Group

Nova Scotia New Democratic Party
Graham Steele, Finance Critic

Nova Scotia School Boards Association
Mary Jess MacDonald, First Vice-President
Lavinia Parrish-Zwicker, President

As an Individual
Jane Warren

MONDAY, OCTOBER 22, 2001 (VANCOUVER)

B.C. Road Builders & Heavy Construction Association
Jack Davidson, President

Canadian Parks and Wilderness Society — B.C. Chapter
Sabine Jessen, Conservation Director

College Institute Educators' Association of B.C.
Roseanne Moran, Communications and Research Staff Representative
Maureen Shaw, President

First Nations Summit Society
Harold Calla, Director of Finance
Jason Calla, Councillor

Indian Taxation Advisory Board
Clarence (Manny) Jules, Chair

Technical University of British Columbia
Linda Bartram, NSERC Industrial Post-doctoral Fellow
Tom Calvert, Professor and Vice-President, Research and External Affairs

Tenants' Rights Action Coalition
Vanessa Geary, Member
Linda Mix, Community Legal Worker

University Presidents' Council of British Columbia
Don J. Avison, President

TUESDAY, OCTOBER 23, 2001 (VANCOUVER)

British Columbia and Yukon Territory Building and Construction Trades Council
Tony Tennessy, President, Operating Engineers Local 115

Canadian Association of Gift Planners
Janice Loomer Margolis, CAGP Representative

Canadian Association of Student Financial Aid Administrators
Jennifer Orum, Vice-President, Coordinator, Financial Aid & Awards, University of Victoria

Canadian Health Food Association
Donna Herringer, President and Chief Executive Officer

Coalition of Child Care Advocacy
Susan Harney, Chair, Coalition and Parents

Coalition of Leaky Condo Owners
James Balderson, Spokesperson

Coalition to Renew Canada's Infrastructure
Jeremy Kon, Vice-Chairman

Confederation of University Faculty Associations of British Columbia
Robert Clift, Executive Director

Credit Union Central of Canada
Wayne Nygren, President and Chief Executive Officer, Credit Union Central of B.C.
Richard Thomas, Vice-President, Government Relations

David Suzuki Foundation
Dermot Foley, Energy Director
Jim Fulton, Executive Director
Gerry Scott, Director, Climate Change

Fuel Cells Canada
Brian Josling, President
Chris Reid, President, Cellex Limited

Greater Vancouver Regional District
Robert Paddon, Manager, Communications
Helen Sparkes, Mayor, New Westminster

Parents for Child Care
Heather Northrup, Member

Trilennium Mentors Ltd.
Conrad Guelke, Principal
R.W. (Bob) Harrison, Chairman
Christopher H. Hebb, Project Associate
John S.R. Montgomery, Project Associate

University of British Columbia
Martha Salcudean, Emerita Professor, Department of Mechanical Engineering

Vancouver Board of Trade
Richard Mahler, Director
Darcy Rezac, Managing Director

WEDNESDAY, OCTOBER 24, 2001 (EDMONTON)

Acupuncture and Traditional Chinese Medicine Associated
R. Bayrock, Vice-President, Acupuncture Society of Alberta
Marc Raedschelders, Program Coordinator

Canadian Association of Petroleum Producers
David Daly, Manager, Fiscal Policy
Dan Swift, Vice-President, Finance

Canadian Parks and Wilderness Society — Edmonton Section
Sam Gunsch, Executive Director

Canadian Worker Co-operative Federation
Hazel Corcoran, Executive Director

Cement Association of Canada —Western Region
Keith Meagher, Manager, Contracts and Technical Support
Ken Pensack, Vice-President, Western Region

Clean Air Renewable Energy Coalition
Marlie Burtt, Director, Tax, Suncor Energy Inc.
Gordon Lambert, Director, Environment, Health and Safety

Northern Alberta Institute of Technology
William Janzen, Vice-President, Finance and Administration
W.A. (Sam) Shaw, President

Nunavut Association of Municipalities
David General, Chief Executive Officer
Keith Peterson, Vice-President

Private Foundations Canada
David Elton, Chair, Government Relations Committee

Women Warriors of Sahtu
Cece McCauley, Chief
Don Sandercock, Advisor

As an Individual
Beverley Smith

THURSDAY, OCTOBER 25, 2001 (WINNIPEG)

"Association des résidences pour retraités du Québec"
Robert Chagnon, Director General
Eddy Savoie, "Les Résidences Soleil — Groupe Savoie"

Asper Foundation Inc.
Gail Asper, Managing Director, President, CanWest Global Foundation
Moe Levy, Executive Director
Norm Promislow, Lawyer, Pitblado, Buchwald & Asper

Association of Manitoba Municipalities
Wayne Motheral, President

Canadian Nature Federation
Gaile Whelan-Enns, Director, Manitoba Wildlands Campaign

Canadian Parks and Wilderness Society — Manitoba Chapter
Beth McKechnie, Executive Director

Congress of Union Retirees of Canada
Al Cerilli, Executive Board Member-at-large, President, Manitoba Federation of Union Retirees

Council of Canadians with Disabilities
Laurie Beachell, National Co-ordinator

Manitoba Organization of Faculty Associations
James Clark, President

Regional Health Authorities of Manitoba
Kevin Beresford, Chair, Council of CEOs
Randy Lock, Executive Director

Trans-Canada #1 West Association
Bruce Anderson, Manager
Darcy Cockbill, Vice-President

FRIDAY, OCTOBER 26, 2001 (OTTAWA)

Department of Finance
The Honourable Jim Peterson, Secretary of State (International Financial Institutions)
Yvan Roy, Assistant Deputy Minister and Counsel to the Department of Finance
Bob Hamilton, Assistant Deputy Minister, Financial Sector Policy Branch
Charles Seeto, Director, Financial Sector Policy Branch
Richard Lalonde, Chief, Financial Sector Policy Branch

Financial Transactions and Reports Analysis Centre of Canada
Horst Intscher, Director

Office of the Superintendent of Financial Institutions
Nicholas LePan, Superintendent

Royal Canadian Mounted Police
Dave Beer, Superintendent, Proceeds of Crime Branch
Rick Reynolds, Inspector, Proceeds of Crime Branch

MONDAY, OCTOBER 29, 2001 (OTTAWA)

Canadian Alliance on Mental Illness and Mental Health
Rémi Quirion, Scientific Director, Institute of Neurosciences, Mental Health and Addiction
Phil Upshall, Chair

Canadian Automobile Association
Rosalinda Fisher, Manager, Government Affairs and Traffic Safety
Elly Meister, Vice-President, Public Affairs and Communications

Canadian Chamber of Commerce (The)
Nancy Hughes Anthony, President and Chief Executive Officer
Michael Murphy, Senior Vice-President, Policy

Canadian Council of Professional Engineers
Pierre Boucher, President
Marie Lemay, Chief Executive Officer

Canadian Federation of Independent Business
Richard Fahey, Vice-President, Quebec
Catherine Swift, President and Chief Executive Officer
Garth Whyte, Senior Vice-President, National Affairs

Canadian Trucking Alliance
David Bradley, Chief Executive Officer
Ron Lennox, Vice-President, Regulatory Affairs

Cement Association of Canada — Ottawa
Patrick Dolberg, President and CEO of the St. Lawrence Cement Group
François Lacroix, President

Federation of Canadian Municipalities
Jack Layton, President
Gilles Vaillancourt, Mayor of Laval

Information Technology Association of Canada
Gaylen Duncan, President and Chief Executive Officer

Investment Funds Institute of Canada
John Mountain, Vice-President, Regulation

National Association of Women and the Law
Kim Brooks, Member, Fiscal Policies Working Group
Bonnie Diamond, Executive Director

TUESDAY, OCTOBER 30, 2001 (OTTAWA)

Assembly of First Nations
Matthew Coon Come, National Chief

Association of Canadian Community Colleges
Gerald Brown, President and Chief Executive Officer

Association of Canadian Travel Agents
Randall Williams, President and Chief Executive Officer

Canadian Alliance of Student Associations
Liam Arbuckle, National Director

Canadian Association of University Teachers
David Robinson, Director, Public Policy & Communications
James Turk, Executive Director

Canadian Council on Social Development
Lori Harrop, Director, Public Affairs
Marcel Lauzière, Executive Director

Canadian Electricity Association
Roy Staveley, Senior Vice-President, Public Affairs and Environment

Canadian Federation of Students
Ian Boyko, Chair

Canadian Fertilizer Institute
Daphne Arnason, PCS, Chair, CFI Business
Norm Beug, Chairman of the Board

Canadian School Boards' Association
Gary Shaddock, President

Canadian Teachers' Federation
John Staple, Director, Economic Services
Harvey Weiner, Deputy Secretary General

Canadian Wireless Telecommunications Association
Peter Barnes, President and Chief Executive Officer
J. David Farnes, Vice-President, Regulatory Affairs

Certified General Accountants' Association of Canada
Everett Colby, Chair, Taxation Policy Committee
N. Dawn McGeachy, Manager, Government Relations and Advocacy

Coalition for Canadian Astronomy
Peter Janson, Chair and Chief Executive Officer, AMEC Inc.
Russell Taylor, Professor of Astrophysics and President of the Canadian Astronomical Society

Council for Business and the Arts in Canada
Sarah Iley, President

Federation of Quebec Apple Growers
François Rochon, President
Jean Louis Roy, Representative

Federation of Saskatchewan Indian Nations
Perry Bellegarde, Chief
Terry Goodtrack, Chief Financial Officer

Humanities and Social Sciences Federation of Canada
Patricia Clements, President
Denise Pelletier, Vice-President, External Communications

Insurance Brokers Association of Canada
Ginny Bannerman, President
Francesca Iacurto, Director, Public Affairs

National Children's Alliance
Harvey Weiner, Member, Canadian Teachers' Federation

National Coalition on Housing and Homelessness
Sharon Chisholm, Executive Director, Canadian Housing and Renewal Association
Mark Goldblatt, Representative

T-Base Research & Communications Inc.
Sharlyn Ayotte, President and Chief Executive Officer
Jillian Deevy, Manager, Web Projects

As an Individual
Ghislain Fournier, M.P. (Manicouagan)

WEDNESDAY, OCTOBER 31, 2001 (OTTAWA)

Brewers' Association of Canada
André Dion, President, Unibroue
Sandy Morrison, President and Chief Executive Officer
Howard Thompson, President and Chief Executive Officer, Creemore Springs Brewery Ltd.

Canadian Abortion Rights Action League
Marilyn Wilson, Executive Director

Canadian Association of Retired Persons
Rolf Calhoun, Ottawa Representative
William Gleberzon, Associate Executive Director

Canadian Dental Association
Andrew Jones, Director, Corporate and Government Relations
George Sweetnam, President-Elect

Canadian Life and Health Insurance Association Inc.
Mark Daniels, President
James Witol, Vice-President, Taxation and Research

Canadian Manufacturers and Exporters
John Allinotte, Director, Corporate Taxation, Dofasco Inc.
Jayson Myers, Senior Vice-President and Chief Economist

Canadian Petroleum Products Institute
Bill Simpkins, Vice-President, Government Relations

Canadian Printing Industries' Association
Pierre Boucher, President
Jeff Ekstein, Chairman of CPIA'S Government Affairs Committee

Celeris Aerospace Canada Inc.
Steve Hall, President

Coalition for the Elimination of Capital Taxes
David Penney, General Director, Tax and Cutoms, General Motors of Canada Inc.
Satya Poddar, Director, Tax Policy Services, Ernst & Young LLP

Ducks Unlimited Canada
Brian Gray, Director, Conservation Programs
Barry Turner, Director, Governmental Affairs

Retail Council of Canada
Peter Woolford, Vice-President

THURSDAY, NOVEMBER 1, 2001 (OTTAWA)

Canadian Association of Railway Suppliers
John Marinucci, Director, President, National Steel Car Ltd.
Frank Trotter, Vice-President

Canadian Federation of Nurses' Union
Kathleen Connors, President

Canadian Home Builders' Association
Greg Christenson, First Vice-President
John Kenward, Chief Operating Officer
Mary Lawson, Member of the Executive Board
Dick Miller, President

Canadian Housing and Renewal Association
Sharon Chisholm, Executive Director

Canadian Medical Association
Henry Haddad, President
William Tholl, Secretary General and Chief Executive Officer

Canadian Nurses' Association
Robert Calnan, President-Elect
Ginette Rodger, President

Canadian Steel Producers' Association
Barry Lacombe, President

Canadian Urban Transit Association
Eric Gillespie, Chair
Michael Roschlau, President and Chief Executive Officer

Conference of Defence Associations
Charles Belzile (Retired), Chairman
Sean Henry, (Retired), Senior Defence Analyst
Alain Pellerin (Retired), Executive Director

International Association of Fire Fighters
Sean McManus, Assistant to the General President

Railway Association of Canada
Bruce Burrows, Vice-President, Public Affairs, Government Relations
Sab Meffe, Chair, Taxation Committee

Canadian Cancer Society
Kenneth Kyle, Director, Public Issues

Canadian National Institute for the Blind
Linda Manyguns, National Coordinator — Aboriginal & Inuit Services
Vangelis Nikias, National Director

Canadian Venture Capital Association
John Bradlow, Director and Chair of the Public Policy Committee
John Eckert, President

Coalition for Biomedical and Health Research
Lisa McKerracher, Associate Professor, Department of Pathology and Cell Biology, Montreal University
Barry D. McLennan, Chair

Coalition of National Voluntary Organizations
Al Hatton, Executive Director

Council for Health Research in Canada
David Hill, Vice-Chair
John Hylton, Executive Director

Environmental Science and Technology Alliance Canada
A. McDowell, Executive Director
Jack Pasternak, Environmental Technology — Innovations Canada

Health Charities Council of Canada
Yves Savoie, National Executive Director, Muscular Dystrophy Association

Heart and Stroke Foundation of Canada
Carolyn Brooks, President-Elect
Sally Brown, Executive Director and Chief Executive Officer

National Round Table on the Environment and the Economy
David McGuinty, President and Chief Executive Officer
Stuart Smith, Chairman

Partnership Group in Science and Engineering
Howard Alper, Past Chair
David Kenny, Chair

Retirement Income Coalition
Malcolm Hamilton, William Mercer Ltd.
C.A. Pielsticker, Chair

APPENDIX B
LIST OF SUBMISSIONS

- Acupuncture and Traditional Chinese Medicine Associated
- Aerospace Industries Association of Canada
- Alberta Association of Municipal Districts and Counties
- Alberta Association of Registered Nurses
- Amalgamated Transit Union Canadian Council
- Annapolis Valley-Hants Community Action Program for Children
- Appraisal Institute of Canada
- Asper Foundation Inc.
- Assembly of First Nations
- "Association des producteurs de films et de télévision du Québec (APFTQ)"
- "Association des résidences pour retraités du Québec"
- Association for Healthcare Philanthropy
- Association of Canadian Community Colleges
- Association of Canadian Pension Management
- Association of Canadian Travel Agents
- Association of Fundraising Professionals
- Association of Manitoba Municipalities
- Association of Universities and Colleges of Canada
- Association of Yukon Communities
- Bioaxone Therapeutique Inc.
- BMO, Nesbitt Burns Inc.
- Boardwalk Equities Inc.
- Brewers Association of Canada
- British Columbia & Yukon Territory Building & Construction Trades Council
- Douglas Burns
- Business Council on National Issues
- Business Tax Reform Coalition
- Campaign 2000
- Canada Council United Brotherhood of Carpenters and Joiners of America
- Canada Foundation for Innovation
- Canada's Association for the Fifty-Plus
- Canada-U.S. Fulbright Commission
- Canadian Abortion Rights Action League
- Canadian Alliance for Children's Healthcare
- Canadian Alliance of Student Associations
- Canadian Alliance on Mental Illness and Mental Health
- Canadian Animal Health Institute
- Canadian Arts Summit
- Canadian Association for Community Living
- Canadian Association of Fire Chiefs
- Canadian Association of Gift Planners
- Canadian Association of Insurance and Financial Advisors
- Canadian Association of Not-for-Profit RESP Dealers
- Canadian Association of Petroleum Producers
- Canadian Association of Railway Suppliers
- Canadian Association of Research Libraries
- Canadian Association of Student Financial Aid Administrators
- Canadian Association of University Teachers
- Canadian Astronomical Society
- Canadian Automobile Association
- Canadian Automobile Dealers Association
- Canadian Bankers' Association
- Canadian Cancer Society
- Canadian Centre for Philanthropy
- Canadian Chamber of Commerce (The)
- Canadian Chemical Producers' Association
- Canadian Conference of the Arts
- Canadian Consortium for Research
- Canadian Construction Association

- Canadian Co-operative Association
- Canadian Council of Professional Engineers
- Canadian Council of Regional Breweries
- Canadian Council on Social Development
- Canadian Defence Industries Association
- Canadian Dehydrators Association
- Canadian Dental Association
- Canadian Dental Hygienists Association
- Canadian Ecumenical Justice Initiatives
- Canadian Electricity Association
- Canadian Employee Relocation Council
- Canadian Federation for Promoting Family Values
- Canadian Federation of Agriculture
- Canadian Federation of Independent Business
- Canadian Federation of Nurses Union
- Canadian Federation of Students
- Canadian Fertilizer Institute
- Canadian Film and Television Production Association
- Canadian Finance & Leasing Association
- Canadian Gas Association
- Canadian Hardware and Housewares Manufacturers Association
- Canadian Health Food Association
- Canadian Healthcare Association
- Canadian Home Builders' Association
- Canadian Housing and Renewal Association
- Canadian Institute of Chartered Accountants
- Canadian Institutes of Health Research
- Canadian Jewish Congress
- Canadian Labour Congress
- Canadian Library Association
- Canadian Life and Health Insurance Association Inc.
- Canadian Lightweight Materials Research Initiative
- Canadian Manufacturers and Exporters
- Canadian Medical Association
- Canadian Museums Association
- Canadian National Institute for the Blind
- Canadian Nature Federation
- Canadian Nurses Association
- Canadian Parks and Wilderness Society — Manitoba Chapter
- Canadian Pensioners Concerned Incorporated
- Canadian Petroleum Products Institute
- Canadian Printing Industries Association
- Canadian Professional Sales Association
- Canadian Real Estate Association
- Canadian Resource Centre for Victims of Crime
- Canadian Restaurant and Food Services Association
- Canadian Retail Building Supply Council
- Canadian Retail Hardware Association
- Canadian School Boards Association
- Canadian Shipowners Association
- Canadian Steel Producers' Association
- Canadian Taxpayers' Federation
- Canadian Teachers' Federation
- Canadian Tooling and Machining Association
- Canadian Trucking Alliance
- Canadian Union of Public Employees
- Canadian Urban Transit Association
- Canadian Vehicle Manufacturers' Association
- Canadian Venture Capital Association
- Canadian Wireless Telecommunications Association
- Canadian Worker Co-operative Federation
- CanWest Global Communications Corp.
- Celeris Aerospace Canada Inc.
- Cement Association of Canada — Atlantic Region
- Cement Association of Canada — Ottawa
- Cement Association of Canada — Western Region
- "Centrale des syndicats démocratiques"
- Certified General Accountants' Association of Canada
- Chamber of Commerce of Kitchener-Waterloo
- "Chambre de commerce du Québec"
- Child Care Advocacy Forum
- Citizens for Public Justice
- City of Edmonton

- City of Vancouver
- Clean Air Renewable Energy Coalition
- Coalition for Biomedical and Health Research
- Coalition for Canadian Astronomy
- Coalition for the Elimination of Capital Taxes
- Coalition of Child Care Advocacy
- Coalition of Leaky Condo Owners
- Coalition of National Voluntary Organizations
- Coalition to Renew Canada's Infrastructure
- "Collectif pour une loi sur l'élimination de la pauvreté"
- College Institute Educators' Association of B.C.
- College of Dental Hygienists of Ontario
- Community Foundations of Canada
- Computing Technology Industry Association of Canada (COMPTIA)
- Confederation of Alberta Faculty Associations
- Confederation of National Trade Unions (CSN)
- Confederation of University Faculty Associations of British Columbia
- Conference of Defence Associations
- Congress of Union Retirees of Canada
- Conservation Ontario (Newmarket)
- Co-operative Housing Federation of Canada
- Council for Business and the Arts in Canada
- Council for Health Research in Canada
- Council of Canadians with Disabilities
- Credit Union Central of Canada
- Crop Life Canada
- Joseph Cvetkovich
- Dalhousie Legal Aid Services
- David Suzuki Foundation
- Margaret Dinsdale
- Direct Sellers Association
- DRI-WEFA Canada Inc.
- Ducks Unlimited Canada
- eMPOWR Canada Inc.
- Environmental Science and Technology Alliance Canada
- "Fédération de l'âge d'or du Québec"
- Federation of Canadian Municipalities
- Federation of New Brunswick Faculty Associations
- Federation of Prince Edward Island Municipalities
- Federation of Quebec Apple Growers
- Federation of Saskatchewan Indian Nations
- Financial Executives Institute Canada
- First Nations Summit Society
- Forest Products Association of Canada
- Foundation for Educational Exchange Between Canada and the United States of America
- "Front d'action populaire en réaménagement urbain"
- Fuel Cells Canada
- Global Economics Ltd.
- Global Thermoelectric Inc.
- GO Transit
- Greater Toronto Home Builders' Association
- Greater Toronto Services Board
- Greater Vancouver Regional District
- Green Budget Coalition
- Group Health Centre
- Health Association of B.C.
- Health Charities Council of Canada
- Heart and Stroke Foundation of Canada
- Heritage Canada Foundation
- Horse Racing Tax Alliance of Canada
- Hospital for Sick Children Foundation
- Hotel Association of Canada
- Humanities and Social Sciences Federation of Canada
- Jean Ince
- Independent Living Resource Centre
- Indian Taxation Advisory Board
- Information Technology Association of Canada
- Insurance Brokers Association of Canada
- Insurance Bureau of Canada
- International Association of Fire Fighters
- Investment Funds Institute of Canada
- Christopher Lafontaine
- Warren Loucks
- Manitoba Association of School Trustees

- Manitoba Organization of Faculty Associations
- McGill University
- Micralyne
- Mining Association of Canada
- "Mouvement des caisses Desjardins"
- Movement for Canadian Literacy
- Multiple Sclerosis Society of Canada
- Municipality of Iqaluit
- Municipality of Markham
- National Anti-Poverty Organization
- National Association of Women and the Law
- National Coalition on Housing and Homelessness
- National Council of Women of Canada
- National Housing and Homeless Network and Toronto Disaster Relief
- National Professional Association Coalition on Tuition
- National Research Council Canada
- National Round Table on the Environment and the Economy
- National Science Organization Working Group
- Natural Sciences and Engineering Research Council of Canada
- Nature Conservancy Canada
- New Brunswick Student Alliance
- Newfoundland — Labrador Federation of Co-operatives
- Newfoundland and Labrador School Boards Association
- Northern Alberta Institute of Technology
- North-South Institute
- Nova Scotia Association of Health Organizations
- Nova Scotia School Boards Association
- Nunavut Association of Municipalities
- Ontario Coalition for Better Child Care Network
- Ontario Hospital Association
- Ontario Municipal Employees Retirement System
- Ontario Non-Profit Housing Association
- Ontario Small Brewers Association
- Ottawa Centre for Research and Innovation
- Parents for Child Care
- Partnership Group for Science and Engineering
- Pitblado Buchwald Asper, Barristers and Attorneys-at-Law
- Joseph Polito
- Pratt & Whitney
- Private Foundations Canada
- Railway Association of Canada
- Real Women of Canada
- Regional Health Authorities of Manitoba
- Retail Council of Canada
- Retirement Income Coalition
- Saskatchewan Association of Health Organizations
- Saskatchewan Association of Rural Municipalities
- Saskatchewan Chamber of Commerce
- Saskatchewan School Trustees Association
- Saskatchewan Wheat Pool
- Security Intelligence Review Committee
- Shipping Federation of Canada (The)
- Single & Associates Research Consulting, Ltd.
- Beverley Smith
- Social Investment Organization
- Social Sciences and Humanities Research Council of Canada
- St. John's Board of Trade
- Standing Committee on National Defence and Veterans Affairs
- Star Navigation Systems
- Sun Life Assurance Company of Canada
- Sun Life Financial's
- Suncor Energy Inc.
- T-Base Research & Communications Inc.
- Tenants Rights Action Coalition
- Terrace Women's Centre
- Toronto and Region Conservation Authority
- Toronto Board of Trade
- Toronto Transit Commission
- Tourism Industry Association of Canada
- Trans-Canada #1 West Association Translink

- Trilennium Mentors Ltd.
- "Union des producteurs agricoles du Québec"
- United Ways of Ontario
- University of British Columbia
- University of Manitoba
- University of Ottawa
- University of Toronto
- University of Western Ontario
- University of Winnipeg
- University Presidents' Council of B.C.
- Urban Development Institute/Ontario
- Vancouver Board of Trade
- Jane Warren
- Leslie Whicher
- Whitevalley Community Resource Centre Society
- Women Warriors of Sahtu
- Writers' Union of Canada
- York University
- Yukon Learn Society
- Yukon Women in Music

Members of Parliament

Who Held Pre-Budget Consultations and/or took part in the take note debate on Pre-budget Consultations

Peter Adams, M.P.	Peterborough (ON)
Eleni Bakopanos, M.P.	Ahuntsic (QC)
Sue Barnes, M.P.	London West (ON)
Stéphane Bergeron, M.P.	Verchères—Les—Patriotes (QC)
Maurizio Bevilacqua, M.P.	Vaughan—King—Aurora (ON)
Bernard Bigras, M.P.	Rosemont—Petite-Patrie (QC)
Rick Borotsik, M.P.	Brandon—Souris (MB)
Hon. Don Boudria, M.P.	Glengarry—Prescott—Russell (ON)
Sarmite Bulte, M.P.	Parkdale—High Park (ON)
Paul Crête, M.P.	Kamouraska—Rivière-du-Loup—Témiscouata—Les Basques (QC)
Libby Davies, M.P.	Vancouver East (BC)
Stockwell Day, M.P.	Okanagan—Coquihalla (BC)
Antoine Dubé, M.P.	Lévis-et-Chutes-de-la-Chaudière (QC)
Ken Epp, M.P.	Elk Island (AB)
Joe Fontana, M.P.	London North Centre (ON)
Cheryl Gallant, M.P.	Renfrew—Nipissing—Pembroke (ON)
Jim Gouk, M.P.	Kootenay—Boundary—Okanagan (BC)
Loyola Hearn, M.P.	St. John's West (NF)
Marlene Jennings, M.P.	Notre-Dame-de-Grâce—Lachine (QC)
Jason Kenney, M.P.	Calgary Southeast (AB)
Bob Kilger, M.P.	Stormont—Dundas—Charlottenburgh (ON)
Hon. David Kilgour, M.P.	Edmonton Southeast (AB)
Gar Knutson, M.P.	Elgin—Middlesex—London (ON)
Sophia Leung, M.P.	Vancouver Kingsway (BC)
Yvan Loubier, M.P.	Saint-Hyacinthe—Bagot (QC)
Steve Mahoney, M.P.	Mississauga West (ON)
Serge Marcil, M.P.	Beauharnois—Salaberry (QC)
Keith Martin, M.P.	Esquimalt—Juan de Fuca (BC)
Pat Martin, M.P.	Winnipeg Centre (MB)
John McCallum, M.P.	Markham (ON)
Grant McNally, M.P.	Dewdney—Alouette (BC)
Réal Ménard, M.P.	Hochelaga—Maisonneuve (QC)
Dennis Mills, M.P.	Toronto—Danforth (ON)
Shawn Murphy, M.P.	Hillsborough (PEI)
Hon. Lorne Nystrom, M.P.	Regina—Qu'Appelle (SK)
Pat O'Brien, M.P.	London—Fanshawe (ON)

Hon. Rey Pagtakhan, M.P.	Winnipeg North—St. Paul (MB)
Gilles-A Perron, M.P.	Rivière-des-Mille-Îles (QC)
Pauline Picard, M.P.	Drummond (QC)
Louis Plamondon, M.P.	Bas-Richelieu—Nicolet—Bécancour (QC)
Karen Redman, M.P.	Kitchener Centre (ON)
John Richardson, M.P.	Perth—Middlesex (ON)
Yves Rocheleau, M.P.	Trois-Rivières (QC)
Jean-Yves Roy, M.P.	Matapédia—Matane (QC)
Werner Schmidt, M.P.	Kelowna (BC)
Judy Sgro, M.P.	York West (ON)
Peter Stoffer, M.P.	Sackville—Musquodoboit Valley—Eastern Shore (NS)
Paul Szabo, M.P.	Mississauga South (ON)
Tony Valeri, M.P.	Stoney Creek (ON)
Elsie Wayne, M.P.	Saint John (NB)

A copy of the relevant Minutes of Proceedings *(Meeting No. 74)* is tabled.

Respectfully submitted,

Maurizio Bevilacqua, M.P.
Chair

Official Opposition Supplementary Report

The Official Opposition concurs in the pre-budget report of the House of Commons Standing Committee on Finance, "Securing the Future". The Report emphasises that the federal government must make national security its top priority. Toward that end the Report recommends enhanced security spending, something that the Canadian Alliance has long advocated.

The Report reiterates the need for sustained fiscal discipline. This can be accomplished by limiting program-spending growth to the sum of inflation and population growth, and by adopting a permanent program review process to reallocate funds from low and falling priorities to areas of increasing priority. Controlling spending can make room for deeper tax relief and debt reduction and engender a more innovative and competitive economy.

While many of the Report's recommendations are consistent with the theme of fiscal responsibility, it neglects a number of critical issues. Despite its length, the Report does not adequately address Canada's long-term economic decline, and makes few recommendations to remedy the situation. We must not allow the urgent need for new security resources and the onset of a recession to lure Canada back into economic complacency. Even after implementing the announced tax changes, Canada will still have the highest personal income and corporate tax burdens in the G-7. We still have the second highest debt to GDP burden in the G-7, and we expend almost 25% of our budget just to cover debt interest costs. These factors have contributed to the declines in our standard of living, competitiveness and currency.

In order to address the importance of several recommendations and highlight areas that have been omitted from the Report, the Official Opposition will concur with the Report and offer this Supplementary Report.

The Official Opposition's Supplementary Report will address the following:

- Canada's Long-Term Economic Decline;
- The Deficit of Resources for Defence and National Security;
- The Imperative of Spending Restraint;
- The Need for Vigilance in Debt Reduction; and
- The Importance of Tax Reform and Tax Relief.

Canada's Long-Term Economic Decline

> *"The 1990s will always stand out as the poorest decade since the 1930s"*
>
> Canadian Chamber of Commerce[i]

Many commentators have referred to the 1990s as the "Decade of Drift" due to the stagnant standard of living of Canadians. The federal government raised taxes over 63 times since 1993, while simultaneously slashing health transfers to provinces and the military. As a percentage of the U.S. standard of living, Canada has fallen to 70% in 2000 from almost 80% a decade ago.[ii]

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i Canadian Chamber of Commerce, An Economic Vision for a Strong Canada Creating an Agenda for Change, August 2000

ii Standard of living is measured as Personal Disposable Income per person. PDI are made comparable using PPP. Date source is the Centre for the Study of Living Standards, March 2001.SECURING OUR FUTURE

Canada's onerous tax and regulatory burdens have reduced our competitiveness. We continue to bring up the rear in too many areas such as productivity growth and personal disposable income. In comparison to the United States our productivity has actually fallen to only 79% from 85% a decade ago. The clearest evidence of this decline is reflected in the value of our currency.

The dollar was 77 cents US in 1993, but recently hit a record low of 62.37 cents, a 20% decline. Not only has our currency fallen against the U.S. dollar, but the Bank of Canada's most recent Monetary Policy Report has also revealed that it has plunged over 20% since 1992 against a basket of six major currencies including the Yen, Euro, U.K. pound, and Swiss franc. Even the Mexican peso has recently faired better than the dollar. While the government has been trumpeting its success, our currency has never been so weak; the Loonie hit five record lows in November. Reversing the downward trend in our standard of living, productivity, and currency is only possible if we get our fiscal priorities straight and the basic economic fundamentals right through aggressive reductions in our tax and debt burden, plus regulatory reform.

A recent study by TD Canada Trust's Chief Economist Don Drummond echoed this conclusion saying:

> *"... there are fiscal policy options that could provide support to the Canadian dollar – and these policies are all the more attractive because they would also promote higher long-term growth."*

Security Deficit

Although the Department of National Defence has seen its funding shrink by 30% in real terms since 1993, there is still no concrete plan of action to restore our military capabilities. The result of the defence deficit has been that Canada has not been able to vigorously contribute to the military aspects of the War on Terrorism. For example, after agreeing to put 1000 troops on 48-hour stand-by, the Canadian military still has a minimal ability to get its troops and equipment across the globe expeditiously.

The Report's recommendations on defence do not go far enough. The most prominent recommendation calls for fast-tracking the review of the 1994 White Paper and for increased capital spending. The Official Opposition advocates immediate and significant new resources for our military. The departmental budget should be increased by $2 billion from the current level. Over time, Canada should aim to increase its spending on the military from its current level of approximately 1.1% of GDP to the NATO average of 2.2% of GDP.

We are encouraged that the Committee recognizes the link between the free flow of trade between Canada and the United States and improved national security. The Report presents a number of useful recommendations and observations including additional resources for the RCMP and CSIS, increased investment in trade infrastructure, and the development of a North American security perimeter.

Spending Restraint

Although this Report, like ones previous, has called for fiscal discipline, the federal government has actually increased spending drastically over the past few years. Last year, for example, program spending was up by 6.8%, more than double the rate of inflation and population growth. The federal government has exceeded its own planned spending target by over $13.7 billion since 1997.

Spending restraint was a consistent theme advanced by witnesses during the Pre-Budget hearings. David Paterson, Executive Director for Canadian Advanced Technology Alliance (CATA) eloquently summarized the attitude of the business community in Canada when he told the committee:

"We believe that the challenges that face us can be met without a major boost in government spending, without damaging Canada's fiscal integrity. Increased spending on security is essential, but we believe it can be offset by reduced spending on less important programs. New initiatives can be postponed until a budget surplus has been restored to a more adequate level."

Although the Report reaffirms the need to direct funds into high priority areas, there are few areas highlighted where spending reductions could occur. We believe that one obvious low priority area is corporate welfare and therefore conclude that the Industry Minister's proposed multibillion-dollar Internet scheme should be rejected, particularly when areas like defence are severely under-funded. We would also look for significant savings in transfers to Crown Corporations, and by eliminating regional employment programs.

Even without reallocation of spending, a cumulative $50 billion would be available for further tax relief and debt reduction over the next five years if government spending was limited to the rate of population and inflation growth (about 3% p.a.) rather than the currently forecasted 5% p.a. increase.

Section 1.11 of the Report notes that past Committee reports have recommended that the government strive to limit expenditure growth to inflation plus population growth. It is very unfortunate that this pre-budget Report does not reiterate the past recommendation. However, we endorse the language in Section 1.9 stating that cutbacks in low and falling priority areas should be undertaken to finance high priority requirements.

Debt Reduction

Although the Report clearly calls for balanced budgets, and the need to reduce low priority spending to achieve that objective if necessary, there is limited reference to the long-term economic priority of public debt reduction.

We believe that another important reason to restrain overall spending is to accelerate debt repayment. Reducing our debt results in a permanent fiscal dividend, which can be used for strategic investments in other areas, like defence or healthcare, and future tax relief. Therefore, we support the Report's recommendation that the federal government sell its remaining minority stake in Petro-Canada. We believe that this recommendation should be expanded to include the sale of the federal government's working interest in the Hibernia oil field. The proceeds of these measures would reduce the debt by about $2.5 billion.

Tax Reform and Relief

The Federal government can accelerate tax cuts, maintain a balanced budget and increase spending in key security areas only if it eliminates wasteful spending and reallocates funds from low and falling priority areas.

While we support the Report's recommendation to continue the process of tax changes, we take issue with the assertion that the amount of tax cuts equals $100 billion cumulatively. In fact, actual tax relief is less than half than the amount advertised in the Report. What matters is money in the pockets of Canadians. Over the same period as the government tax plan, CPP premiums are scheduled to increase by about $30 billion. Thus, the CPP increase alone reduces the net tax cut by 30%. Furthermore, the government counts indexation as a tax reduction when in fact it is simply a cancellation of $21 billion in future tax increases. And, strangely enough, the government methodology considers the almost $8 billion expenditure increase of Canada Child Tax Benefit as a tax cut. The Auditor General, Statistics Canada and economists in general consider the CCTB to be spending program. After accounting for these items the Liberal tax plan is less than $43 billion over five years, or about 67% less than advertised.

Under current government spending projections we anticipate an underlying budget surplus of up to $9 billion for this year alone and an additional $30 billion over the next 5 years. The government has more than adequate fiscal capacity to accelerate targeted tax cuts, particularly if spending growth is restrained.

Employment Insurance Premiums

Employment Insurance (EI) premiums constitute a job killing tax that disproportionately affects low-income Canadians. They must be reduced as quickly as possible. Even though EI premiums are slowly being lowered, payroll taxes (EI premiums and CPP) continue to rise every year and will increase by approximately $1.5 billion next year. Unfortunately for taxpayers, EI premium reductions are being more than offset by rising CPP contributions.

We concur with the Report that EI premiums should be reduced to a break-even level and further recommend that the EI program be fundamentally reformed as a stand-alone insurance-based system. The cumulative EI surplus was $36-billion as of March 31st of this year, more than double the financial requirement for benefit payments in even the most severe downturn. Reforming EI into an insurance-based system, with contributions based on actuarial principles, would result in significant savings for both businesses and workers, and would stimulate employment.

Capital Taxes

We strongly agree that capital tax is a direct tax on innovation, and therefore support the Report's recommendation that it be eliminated. The elimination of the capital tax is affordable, sensible and timely, and should be acted upon immediately.

The recommendation makes reference to harmonization with provincial governments on the subject of capital taxes. We believe that the federal government needs to take leadership on this issue and commit to reduce its rate unilaterally. In the name of fiscal prudence we are willing to see it phased in over a number of years, beginning with a significant reduction for next year.

Resource Taxation and Regulation

Perhaps one of the most troubling elements of the Report is it failure to address the various tax, regulatory and environmental issues faced by the resource sector. While the Report calls for an extension of spending for the Canadian Film Fund and supports special tax incentives for the Canadian film and production industry, it entirely neglects the concerns of the resource sector.

We are calling for tax fairness for the resource sector. Specifically, we believe that the announced reductions in corporate tax rates to 21% should apply equally to the resource sector. Furthermore, we remain deeply concerned that the Report fails to address the financial impact of the Kyoto Protocol on the resource sector, and our economy as a whole. The oil and gas and mining industries, alone, account for almost $100 billion in production and over 350,000 jobs in Canada. The cost of compliance with Kyoto is estimated to be between 1.5% and 10% of GDP, or a staggering $15 to $100 billion.

We believe that we should only ratify Kyoto if the following conditions are met:

- Participation from the United States and Mexico;
- Inclusion of clean-energy export credits within the protocol;
- Provincial consent; and
- Parliamentary approval.

Tax and Regulatory Issues Related to Venture Capital

The importance of venture capital in a healthy and vibrant economy cannot be understated. The Official Opposition believes that through tax and regulatory reform significant progress can be made in fostering capital formation in Canada for the benefit of entrepreneurs and the economy as a whole.

The current regulatory regime has deficiencies, which restrict both domestic and foreign investment in typical venture capital vehicles. For example, investments by Canadian pension funds and other large passive investors in certain types of vehicles are included as foreign property holdings, regardless of the fact that the investments are domestic. This illogical policy clearly hinders venture investment and can be easily remedied. We urge the government to make the necessary regulatory change to correct this situation immediately.

Additionally, Canada taxes capital gains realized by foreign investors, creating a tax regime which contrasts negatively with those of other countries including the United States. This is a major issue for passive non-taxable entities such as pension and endowment funds and therefore we support the recommendation of the Canadian Venture Capital Association that taxes on capital gains realized by foreign investors be eliminated.

Conclusion

The Official Opposition believes that along with strategic investments in national security and our military, tax reform and tax relief must remain a top priority. We concur with the Report that a return to budget deficits is not an option and that the federal government must exercise fiscal restraint and fund increased spending needs from off-setting reductions in low and falling priority areas. The measures initiated by the government to date do not go nearly far enough in arresting the declines in our currency, standard of living and competitiveness. The Official Opposition believes that we can not afford to miss the current opportunity to set our fundamentals right to improve economic security for all Canadians.

Dissenting Opinion of the Bloc Québécois

Pre-budget Consultations 2001
Standing Committee on Finance

The Bloc Québécois wishes to dissociate itself from the report of the Liberal majority, which in no way reflects the real needs of Quebeckers and Canadians in these unusual times.

The Bloc Québécois would also like to point out that, as in prior years, the pre-budget consultations were, unfortunately, an exercise befogged with hypocrisy: the Finance Committee and the federal Minister of Finance did not really consider the recommendations and complaints of Quebeckers and Canadians as to how the federal surplus should be spent. We are not fooled – the die has already been cast!

PLAYING WITH THE NUMBERS

Unfortunately, the federal budgetary process has become an exercise in subterfuge rather than an indicator of the federal government's financial position. As we have come to see in recent years, the Finance Minister has an annoying habit of underestimating budget surpluses. In fact, since 1996, the federal government has accumulated budget surpluses in excess of $30 billion.

Since 1996, in fact, the federal government has accumulated surpluses in the order of $35 billion. While we should all rejoice in this good public management, the federal government has, in reality, demonstrated its inability to make predictions by artificially inflating its deficits and continuously underestimating its budget surpluses. In so doing, it has excluded from any public debate almost $60 billion in fiscal manoeuvrability that the Bloc Québécois, with far fewer resources, was able to measure much more accurately.

By distorting the true picture of the nation's finances, the federal government has also diverted significant financial resources from the nation's priorities, especially health and education. It has also hampered public participation by sending very divergent messages to the people.

First, we deplore the alarmist tone of the report that, on a number of occasions, threatens the return of deficits. In these times of uncertainty and insecurity, we believe that people are entitled to a positive attitude, one that will instil confidence by simply affirming that the government "will not be returning to a deficit situation". A clear declaration along those lines would have helped to maintain consumer spending at a higher level and would have sent out a positive signal that it is possible for the economy to slow down without collapsing.

Second, the Bloc Québécois believes that it is impossible to return to a deficit situation. The budget surplus for the first six months of the fiscal exercise is $13.6 billion. How could the government possibly make this surplus disappear completely? Even with the economic slowdown, and the increase in military and security-related spending, we cannot foreseen that a "balanced approach", so dear to the government, could raise the bill to $13 billion. In fact, to fall into a deficit position, annual growth would have to be less than –5% or spending would have to increase by 11%, hence the ridiculousness of this alarmism.

Lastly, the Bloc Québécois would like to remind the Liberal majority of the Standing Committee on Finance and the Finance Minister that a large part of last year's federal surplus – approximately $7.5 billion – came from the Employment Insurance Account surplus. Moreover, according to the chief actuary for the EI Account, the Account surplus this year will be comparable to the $7.8 billion surplus accumulated during the last fiscal exercise.

BREATHING NEW LIFE INTO THE ECONOMY!

In light of the current economic slowdown and the impact of the events of September 11th, the Bloc Québécois proposed to the Finance Minister a $5 billion economic stabilization plan, with no deficit. This plan rests on two basic principles, namely supporting the economy and supporting employment. It is **realistic, effective and responsible.** Unfortunately, the Committee drew nothing from it.

Moreover, even after any expenses incurred as a result of this plan, the federal Finance Minister would still have sufficient fiscal manoeuvrability to address new requirements with respect to security and international aid.

Credible estimates

This plan is based on very realistic estimates, given that it draws on the most conservative scenario. For the sake of caution and because the Bloc is, first and foremost, a responsible partly that does not wish to place Quebec and Canada in a budget deficit situation, we went with the hypothesis of a negative net growth of approximately 2% for the last two quarters of 2001-02. Based on these figures, the federal surplus would be approximately $13.6 billion for the current fiscal year. Our estimates take into consideration decreased income and federal transfer payment to the provinces.

If we subtract from this figure the $5 billion needed for the realization of the economic renewal plan proposed by the Bloc Québécois, which are non-recurring costs, the Finance Minster could achieve a comfortable margin of manoeuvrability of $8.6 billion.

Overview of the renewal plan

- Support for SMEs $1.85 billion

First, along the lines of the measures adopted by the Quebec government in its recent budget, the instalments for SMEs should be carried forward to March 31, 2002. Second, we believe that the federal government should give SMEs a two-month Employment Insurance premium holiday.

- Employment insurance $1.15 billion

The Bloc Québécois believes that the federal government should propose a series of measures to bolster confidence and ensure that the thousands of Quebeckers and Canadians who have joined the ranks of the unemployed since the outset of this crisis find employment.

We would like to remind the government that the immediate implementation of the recommendations of the Standing Committee on Human Resources Development, tabled in May 2001, should be a priority in that these recommendations refer to passive measures proposed subsequent to the recommendations made by our party. Although we feel that it represents a good first step, the recommendation to reduce premiums by ten cents is not, in our opinion, adequate.

- Miscellaneous sectoral assistance $1 billion

The Bloc Québécois is proposing that the federal government give assistance to sectors that are suffering in the wake of the terrorist attacks of September 11: tourism, the airline industry, biotechnology, aeronautics and freight transport.

The Liberal government could spend $1 billion over the next six months to assist the hardest- hit sectors of the Quebec and Canadian economy. These initiatives could take the form of loan guarantees, investments in research and development, or targeted grants.

• Security and defence $1 billion

Naturally the Bloc realizes that manoeuvring room must be allowed for in response to increased security and defence needs following the September 11 attacks. Enough flexibility must be left to respond more effectively to the public's fears. In addition, renewal of security measures is all the more important in that it will have a direct impact on the economy by encouraging a return to normal trade.

OTHER CONSIDERATIONS

There are other considerations that the Bloc Québécois hopes the Committee will take into account. First, the report boasts of cuts in the government's spending program. In fact, from 1993-94 to 1999-2000, spending declined by only 1%. Apart from that tiny drop, the government left its revenues to float on the rising tide of a booming economy.

Let us remember that the government picked and chose what cuts it would make within its total expenditures. It was transfers to Quebec and the provinces (which go largely to finance health care, higher education and social assistance) that suffered the most: they were reduced by 18% between 1993 and 2001. During this time, other program spending went up by 8%. It is generally agreed that the improvement in the spending to GDP ratio is largely due to the growth of the GDP.

Second, a number of proposals referred to the need for "prudence" in the budget estimates. The Committee favours an approach involving prudent hypotheses, a contingency reserve and prudent manoeuvring room. These are three conservative criteria that taken together have transformed the budget process into the exercise in juggling the numbers that it has become. We appreciate the necessity of taking a prudent approach, but not at the expense of transparency.

Third, we would have liked income tax reductions to be modified so that they benefited low income households. The existing cuts in income and other taxes are aimed primarily at very high income earners, to such an extent that in Mr Martin's two most recent budgets, Canadians with incomes over $250,000 have been handed more than $9,000 in income tax reductions, while families with incomes in the neighbourhood of $40,000 have seen their income tax go down by scarcely $300. By arranging the cuts more intelligently, immediate relief could have been given to families with incomes of $40,000 and less, particularly single-parent families with two dependent children. Such families could have been exempted from the obligation to pay income tax at all to the federal government, if the federal government had allowed itself to be guided by concern for a certain balance in society rather than the wish to lavish tax cuts on the country's millionaires.

Fourth, certain sections focus on health care in particular. In the view of the Bloc Québécois, the central government's desire to intervene in this area demonstrates once again its lack of respect for areas of provincial jurisdiction. Ottawa withdrew from health care by slashing its transfers to the provinces — it now provides Quebec with only 13 cents on every dollar invested in health. We would like to underscore to the Committee that it would be unacceptable to reinvest in health care and education networks by setting standards and imposing other conditions on the provinces. The necessary investment must leave full freedom and flexibility to the provinces to use the money where the needs are most urgent.

Fifth, we consider that the creation of a municipal emergency services training fund in collaboration with the provinces would be a good initiative, as long as the provinces have precedents in how these initiatives are directed, given that they know their municipalities better. However, the funds for various information or

communications services must be distributed in such a way that the freedom and right to privacy of Quebeckers and Canadians are respected.

Sixth, we want to draw the Committee's attention to the report's comments on spending. More specifically, we are concerned about the $10 million for the Financial Transactions and reports Analysis Centre of Canada (FINTRAC). We applaud this increased funding but we are afraid that it will not be sufficient. The main problem for FINTRAC is that its regulations have not been completed. The requirements for mandatory reporting are not yet in effect, since the implementing regulations are still being drafted. This means that there is still no mandatory reporting in Canada, which continues to encourage the existence of tax havens and thus facilitates the financing of terrorist networks.

Seventh, we hope that the recommendation on tax assistance for mechanics' tools, which responds to a Bloc Québécois initiative, will be implemented as soon as possible.

Eighth, we want to voice strong reservations about the consistency of two recommendations. The first proposes to achieve the OECD objective of spending 0.7% of GDP on assistance for developing countries by a target date. The second calls for a moratorium on international expenditures not related to security. It is clear that the OECD objective cannot be achieved this year.

Lastly, the environmental recommendations are in our opinion very attractive. However, it seems to us that the government has been studying tax incentives and economic tools for the environment for a very long time. Many countries have a long head-start on Canada. Perhaps it may be time for the government to stop studying and start taking action.

CONCLUSION

This is our response to the report by the Liberal majority on the Standing Committee on Finance. We believe that the majority report is marked by a pessimism that has no place in the current context. Quebeckers and Canadians will not be getting the go-ahead signal they need to restore their confidence.

The Bloc Québécois is disappointed that the majority report does not take its stabilization plan into account. This plan is however, as desired by Quebeckers, realistic, effective and responsible. Now we can only hope that the Minister of Finance will listen to our suggestions and considerations.

Dissenting Opinion

NDP Response to Pre-Budget Report of the Standing Committee on Finance
Security and Interdependence

In the wake of September 11th, there is increasing insecurity in the world economy. An existing downward trend has deepened and may be prolonged. Higher unemployment is already affecting industrial economies not just in North America but also in Europe and Japan, and economists who keep revising forecasts downward fear the prospect of a global recession. With consumer confidence eroding, identifying a source of demand to revitalize the economy has become problematic.

In five weeks of Committee hearings throughout Canada, hardly anything at all was heard about tax cuts or paying down the debt. What concerns Canadians today is security — securing their country and its borders, sustaining the economy, and providing economic security for their families and their communities. If September 11th held an economic message for Canadians -- it was to remind us that our own security (economic and otherwise) is critically dependent on the security of those around us. And in an increasingly interdependent world, reliance on market forces alone does not solve every problem. There is, indeed, a role for government. And that role goes well beyond the obvious imperatives of public safety, defence, intelligence etc., to broader issues of human security and social justice at home and abroad.

In the immediate term, the role for government is also to build economic security here by determining how to kick-start a sagging economy back to life. A major concern for us is that our economic fortunes rest largely on riding the wave of a U.S. rebound at a time when all signs there point to a deepening slowdown. U.S. unemployment is at its highest level in five years, and October's job loss was the largest one-month decline on record. In Canada unemployment is at its highest level in two years, and new layoff notices are posted daily. Several provinces have announced spending reductions to protect their budgetary balances, and others, handcuffed by balanced budget legislation will follow suit, creating a further drag on the economy. Interest rate cuts have been positive, but in the wake of cutbacks to unemployment insurance and social assistance, and the explicit de-linking of federal contributions to social assistance, the automatic stabilizers put in place to protect citizens and communities in a downturn are no longer very effective.

In such an environment, putting major emphasis on balancing the budget is simply misplaced ideology. New Democrats believe that it is sound fiscal practice to balance the budget over the course of a business cycle, but, having recorded cumulative surpluses since 1997, this hardly qualifies as the major economic problem. This year, the government's fiscal situation may allow it to ride out the economic slowdown, but as the Finance Minister said in May, for Canadians feeling the heat "It is of little comfort to them to hear that the Government is doing fine."

In fact this year the government should be taking advantage of its comfortable fiscal surplus to rebuild the economy today, and avert a recession tomorrow.

The Need for Fiscal Stimulus

It is the role of government to do what it can to soften the impact of a downturn in terms of human costs and community fallout, and to ensure that a faltering economy does as little damage as possible to people and communities. Only direct fiscal stimulus can generate the growth the economy needs now.

Canada needs both an immediate stimulus package to increase demand in the short term to prevent a deeper and more protracted recession, and a major reinvestment initiative in infrastructure and public programs to improve our capacity in the long run. As over 100 leading Canadian economists have pointed out: to be

effective, that package should invest approximately 1% of GDP. Measures directed at modest income households have the best capacity for increasing growth quickly and do far more to stimulate the economy than accelerated tax cuts. Infrastructure investment is cost shared with other levels of government and generates far more jobs than any tax measure. Dollar for dollar, a quick increase in government spending will produce the best bang for the buck, and prevent the economy from falling into recession.

Essential components of that fiscal stimulus package should be:

1) Unemployment Insurance: With mounting job losses, many Canadians will find themselves either ineligible for benefits, exhausting benefits before they find other jobs, or trying to live on very inadequate income replacement from Employment Insurance. The federal government is still collecting billions more in premiums from workers than it pays out in benefits every year. Measures should be taken immediately to ease eligibility criteria, extend benefit periods and make work-sharing options within the system more flexible, and more generally available.

2) Investments in Infrastructure Renewal: Long term health and productivity of the economy are critically dependent on reversing two decades of neglect of our physical infrastructure.

One key priority is for significant investment in a **National Affordable Housing Strategy** that would not only increase economic security and create tens of thousands of jobs, but deal with a housing crisis in which two million Canadians are either homeless and destitute, or literally one paycheque away from it, with rents so high they are unable to pay for food. This investment would generate significant benefits since housing construction is labour intensive and has high job spin-offs because of intensive use of Canadian made products and materials. (e.g. softwood lumber)

Further, a **National Environmental Infrastructure Program** should be established to upgrade municipal water and sewage treatment plants, clean up contaminated sites, modernize and expand public transit systems, and retrofit municipal and public sector buildings to higher standards of energy efficiency. Making infrastructure program support permanent and expanding investments in this area are essential to giving Canadians access to safe drinking water, relieving smog in cities across Canada, providing affordable transportation, and shifting the economy to more energy efficient alternatives. Infrastructure funding announced in the last budget was a modest start, but very limited in terms of need and too short term to allow real planning for sustainable development in our communities. This investment thrust must also have its application in the area of Healthcare, preventative medicine and community and home care. It must include more investment to train attract and keep nurses in this country as well as doctors.

3) Agriculture – The farm crisis on the Prairies is forcing farmers to leave their land, small towns to deteriorate, and a whole way of life to disappear, along with the national security objective of being able to produce our own food supply. This is presented to Canadians as some kind of collateral damage from globalization. But in France, farmers get six times the level of support given to Canadian farmers; and in the US, farmers get four times as much support. Experts, including the government's own agriculture officials have been quick to tell the committee that there is room, within the confines of WTO rules to increase farm support significantly without running afoul of the WTO. An immediate increase in federal support to farmers through the NISA, with federal government assuming two thirds of the contributions, would provide much needed income stabilization for farmers, and shore up our essential rural economy through difficult times.

4) Airport Security – In the wake of September 11, citizens across North America are concerned about the effectiveness of airport security measures and are demanding that airport security become a public safety responsibility. Public provision of these services would help to restore confidence in the airline and travel

industries that are faring badly at the moment. Federal investments should go to new security equipment and to train, equip and pay salaries of airport security workers.

5) Official Development Assistance (ODA)- A faltering global economy is a critical reminder of our economic and environmental interdependence. If Sept 11th holds long term lessons for us, it may well be that our prosperity and health will be undermined if large numbers of the world's population remains mired in poverty, disease and despair. As one of the richest nations in the world, Canada should be doing far more to help the developing world. Instead we are at record low levels of ODA, spending just .25% of our GDP, when, for years, the goal has been .7%. In this budget, the government needs to renew its commitment to effectively move towards this goal.

If September 11th changed our perceptions of the world, the global economy, and the security of our place in it, let us use that awareness to chart a more equal and secure future for all citizens at home and around the world.

Lorne Nystrom
NDP – Finance Critic
Ottawa, November 22, 2001

Supplementary Report

Progressive Conservative Democratic Representative Caucus

The PC-DR Caucus supports the main thrust of the report of the finance committee pre-budget consultations. However, there are additional actions not included in the report that we believe should be taken to improve productivity and thus strengthen the Canadian dollar. Strengthening productivity will ultimately improve Canadian standard of living.

Before the October 2000 mini-budget Canadians had the second-highest corporate taxes in the OECD and it is expected that following the December 2001 budget that Canada will continue to have the second-highest corporate taxes in the OECD. This creates a competitive disadvantage between Canada and our international competitors. In today's global economy, it is clear that competitive tax rates are essential. Tax reduction combined with meaningful tax reform will help create a more prosperous Canada.

The Canadian dollar has lost 20 per cent of its value against the U.S. dollar since the Liberal government was elected in 1993. Since 35 per cent of everything Canadians consume is from the U.S., a 20 per cent reduction in the Canadian dollar's relative value represents a massive drop in the standard of living for all Canadians. The dollar is not just doing badly compared to the U.S. dollar, this year it has lost 11 per cent against the Mexican peso, 4 per cent against the British pound, 3 per cent against the Russian ruble, and 6 per cent against the Argentine peso.

> "I am very concerned about the Canadian dollar"
>
> David Dodge
> Governor
> Bank of Canada

> "At certain levels of the dollar you can argue that a depreciation is a value to the economy, but I think that went out the window a long time ago and any further slide is not helping"
>
> Don Drummond
> Chief Economist
> Toronto-Dominion Bank

Canada's poor productivity performance has been a major contributing factor to the decline in the value of our dollar. This low productivity growth leads to a vicious cycle as our low dollar decreases the incentive to innovate and increases the cost of production enhancing tools and technology. This in turn reduces productivity further and drives our dollar lower.

> "When the Canadian dollar is weak the cost of capital goods is higher, since typically they are imported from the U.S. Therefore, Canadian companies will not invest as much in machinery and equipment, and we will not get the productivity growth that we otherwise would get."
>
> Gordon Thiessen
> Former Governor
> Bank of Canada

Specifically, the PC-DRC urges the government to take action to address Canada's antiquated tax system, reduce Canada's regulatory burden, and strengthen Canadian productivity.

1. It is the view of the PC-DRC that the report does not adequately emphasize the need for productivity focused tax reform. The weak Canadian dollar both reflects and serves to foster Canada's lagging productivity levels.

A major contributor to Canada's economic problems, well before the terrorist attacks, was our failure to encourage investment in productivity. For any growth to take place, especially during slowing economic times, investment in innovations and efficiency is the key to solid and stable growth.

With the emergence of the new economy, technology has become essential to wealth creation in Canada and the world. High taxes are a clear barrier to investment in this new economy.

Canada's productivity growth has lagged behind that of other industrialized nations in recent years. Canada's productivity growth over the past two decades has been slower than every other G7 country. We have one of the worst growth rates in the OECD. A look at the impact of innovative public policy in other countries will highlight why Canada is falling behind. Ireland, for example, has utilized aggressive tax reform to encourage knowledge-based industry. From 1988 to 1999, Ireland had a real GDP per-capita growth rate of 92 per cent. For the same period, Canada's GDP per-capita growth was an anemic 5 per cent. By cutting taxes, especially business taxes, Ireland attracted significant levels of foreign investment. Clearly, there is a direct correlation between levels of investment and levels of productivity.

Canada has a "branding" problem in the international investment community. Branding is especially important as today's capital is highly mobile. Capital can move unimpeded to friendlier jurisdictions. Investors do not feel Canada provides the best investment opportunities. Even Canadians look elsewhere for investment and employment opportunities. Perception is reality. Canada can only alter the opinion of foreign investors through significant improvement of the real and perceived business environment. Small incremental changes will go unnoticed by investors. Bold tax reform would symbolically and substantively help improve Canada's future prospects in the new economy.

If we are to keep and attract talent, our fiscal environment must be more competitive with our neighbours. Changing times requires a changed approach. Until recently, the goals of the tax system were redistribution of income. Now the tax system redistributes people. Our system needs to adapt to this reality, for if we do not, our best and brightest will continue to move elsewhere, and become our competitors instead of our assets.

Part of the solution would be eliminating capital gains tax completely. In terms of the impact of the new economy, there is probably not a more negative tax than our capital gains tax regime. Capital gains taxes lock up capital that Canada's growth industries sorely need.

We strongly support the committee's recommendation to eliminate capital taxes. The new economy depends on mobility of investment capital and human capital. For too many years we have seen young Canadians driven away by the tax rates at home to opportunities in other countries.

The PC-DRC also supports the committee's recommendation to eliminate the remaining capital gains tax for gifts of listed securities. This is the single most important step that government can take to improve funding for the charitable sector, and in doing so strengthen Canada's social support network.

The government should fully implement the corporate tax reform recommendations of the Mintz Report. Tax reduction combined with tax reform can ensure that all sectors benefit from corporate tax reform. Corporate tax reform should seek to reduce the distortionary nature of our tax policy, further reduce profit insensitive taxes, and in general reduce our corporate tax burden.

We recommend lowering corporate tax rates to the OECD average, which is to a combined federal and provincial rate of approximately 35 per cent, and recommend the immediate elimination of the personal capital gains tax, and a commensurate reduction of all taxes on investment.

2. Ensuring the ongoing free flow of goods and services across the Canada-U.S. border is the most important immediate economic challenge facing Canada. One third of our GDP is a direct result of exports to the U.S. 70 per cent of this moves by truck, the mode of transportation most adversely affected by any border obstruction. Much of that trade is with firms that rely on just-in-time inventory systems to keep production costs low. If Canada is to continue to be an attractive place to invest, Canadian firms must continue to have confidence that the border will not be a barrier to timely and efficient flow of commerce.

The PC-DRC has proposed a "Public Protection and Border Management Plan." The PC-DRC recommends the government work with the United States government to:

(i) Create a new Ministry of Public Protection and Border Management to take responsibility for Canada's customs, immigration, law enforcement and intelligence agencies;

(ii) Create a bi-national (tri-national) border management agency, that would jointly monitor the entry of goods and people into and out of the North American continent and across the Canada – U.S. border, while pre-clearing low-risk individuals and goods for expedited transit; and

(iii) Create a new Parliamentary Committee to provide oversight of this new Ministry and other anti-terrorist measures contained in Bill C-36.

Canada needs a plan quickly so that these extraordinary circumstances do not threaten, prevent or impede the mobility of people, goods, services and merchandise between Canada and its most important trading partner, the United States of America.

The PC-DRC strongly supports recommendations to significantly increase resources for the Department of National Defence, the RCMP and CSIS.

3. Canada needs significant regulatory reform focused on productivity enhancement. Regulations are a form of hidden taxation. As they raise the cost of doing business, Canadians end up paying a relatively higher price for goods and services. They also kill jobs by making Canada less competitive. In the aftermath of September 11th, SMEs have been one of Canada's strengths. Small businesses have helped maintain Canadian employment levels and we owe it to them to take leadership in creating a more vibrant economic environment.

The PC-DRC recommends implementation of an annual "Red Tape Budget" in addition to the annual spending budget. This would afford Parliament the opportunity to debate the regulatory burden on both Canadian business and individuals. The regulatory budget would detail the estimated total cost of each individual regulation, including the enforcement costs to the government and the compliance costs to individual citizens and businesses. A regulatory budget would help hold governments accountable for the full costs of their regulations and could prevent the current patchwork of redundant regulation that can stifle Canadian enterprise.

The use of sunset clauses can help ensure that the raison d'etre of a regulation is reviewed periodically. Currently, once a regulation is on the books it is there forever, even after it has ceased to provide a public benefit.

4. The PC-DRC endorses a system, as it existed prior to the late 1960s, whereby a certain number of departments selected by the Opposition would have their Estimates scrutinized by Parliament, without a time

limit. Forcing Ministers to defend their department estimates in the House of Commons would improve parliamentary scrutiny on government spending, and strengthen the role of Members of Parliament.

5. In the U.S., the basic investment vehicle for venture capital investment is the Limited Partnership. The PC-DRC proposes that the Income Tax Act be amended to allow Limited Partnerships to play the same role in Canada.

The Act should be amended to add a special rule applicable to limited partnerships similar to the rule in section 259 of the Act that applies to trusts. This rule would ignore the interest in the partnership and would treat the partner as holding directly a proportionate interest in the assets of the partnership. If such assets were Canadian, they would be treated as Canadian in contrast to the present regime that deems them to be foreign.

In addition, as a Limited Partnership does not restrict the percentage of its ownership that can be held by a single investor, the 30 per cent restriction referred to above would be eliminated.

To further improve the Canadian environment for venture capital we recommend:

(i) Eliminating tax on capital gains realized by foreign investors;

(ii) Eliminating withholding tax on interest;

(iii) Extending treaty protection to limited liability companies;

(iv) Having more equitable tax treatment for cross border mergers;

(v) Having employee stock options in Canadian controlled private; corporations ("CCPCs"); and

(vi) Having broader rollover privileges for reinvestment in CCPCs.

Clearly, the elimination of personal capital gains tax would dramatically strengthen Canada's venture capital community.

6. Currently, a tax-free allowance of $1,000 is provided only to those Emergency Service Volunteers who receive remuneration for their services. This policy discriminates against rural firefighters, for example, who rarely receive any compensation. The Income Tax Act should be amended to provide a tax credit of $1,000 to all Emergency Service Volunteers. This initiative is particularly important in a post-September 11 environment.

7. A tax credit should be introduced based on the repayment of the Canada Student Loan principal, to a maximum of 10 per cent of the principal, per year, for the first ten years after graduation provided the individual remains in Canada.

Additionally, the federal student assistance program should move to a system where student loans are repaid as a percentage of net after tax income starting the first full working year after graduation.

8. To encourage reservist service in the Canadian military, the income tax act should be amended to exempt military reservists from paying tax on their "Class A" income. "Class A" training refers any activity other than full time work with the reserves.

As Canada expands its international commitment we will become more reliant on our reserve forces for "Homeland Defence."

This exemption will provide an incentive for people to become part of the military reserves. This will need to be accompanied by new legislation protecting the jobs of reservists who are called to active duty.

9. In a post Kyoto environment, the government should be encouraging sound forest management practices. The government should allow forest maintenance expenses to be deducted against income. Private woodlot operators should be provided with the same capital gains tax exemption currently available to farmers.

10. The PC-DRC suggests that a private sector initiative be undertaken in response to the report from the Broadband Task Force. A national broadband initiative is analagous to the laying of the railroad, where the first priority was to connect the major cities. After that, subject to real demand and economics, the outer regions and towns were connected. Canada should have a broadband policy but it should be structured as cost effective and it should be driven mostly by the private sector, not the government.

11. The federal government's current farm safety net framework fails to meet the needs of farmers across Canada. There has been a devastating impact on farm income due to this summer's severe drought conditions. Industry analysts have estimated losses to the grains and oilseeds sector to be $2 billion this year. This stark reality is compounded by the fact that there will be less money in the national disaster assistance program this year. The new Canadian Farm Income Program has only $435.5 million budgeted for 2000-2001, compared with more than $600 million in disaster assistance that was delivered in the final year of the Agriculture Income Disaster Assistance program. Additional federal support is required and should be one of the top priorities for the government.

12. The federal government has created a class of depreciable capital assets specifically designed for new energy efficient or environmental friendly technologies. The government should improve the tax treatment of alternative energy sources such as biomass, biogas, fuel cells, wind power, small river hydroelectric and photovoltaic technologies as an incentive to encourage energy efficiency and the use and development of environmentally friendly energy sources. Specifically, changes to expand Class 43.1 of the Capital Cost Allowance schedule should be implemented to ensure that emerging energy efficient technologies are included.

Scott Brison, M.P.
PC-DRC Finance Critic

MINUTES OF PROCEEDINGS

THURSDAY, NOVEMBER 22, 2001
(Meeting No. 74)

The Standing Committee on Finance met *in camera* at 11:10 a.m. this day, in Room 536, Wellington Building, the Chair, Maurizio Bevilacqua, presiding.

Members of the Committee present: Sue Barnes, Carolyn Bennett, Maurizio Bevilacqua, Scott Brison, Ken Epp, Albina Guarnieri, Jason Kenney, Sophia Leung, John McCallum, Shawn Murphy, Pauline Picard, Monte Solberg.

Acting Members present: Paul Bonwick for Roy Cullen, Robert Bertrand for Nick Discepola, Bob Speller for Gary Pillitteri.

In attendance: From the Research Branch of the Library of Parliament: Blayne Haggart and Marc-André Pigeon, Researchers; Marion Wrobel, Senior Analyst. *From the Committees' Directorate:* Mike MacPherson, Committee Clerk.

The Committee considered a draft report on Pre-Budget Consultations

It was agreed, — That the draft report be adopted, as amended, as the Tenth Report of the Committee.

It was agreed, — That the title of the report be:

"Securing our Future"

It was agreed, — That the Committee append to its report, supplementary or dissenting opinions from the opposition parties provided that they are no more than five pages in length and submitted electronically to the Clerk of the Committee in both official languages, no later than 5 o'clock p.m. on Friday, November 23, 2001.

It was agreed, — That the chair, researchers and clerks be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

It was agreed, — That the chair be instructed to present the Tenth Report of the committee to the House.

It was agreed, — That the committee print 8500 copies of the report in English and 1500 copies in French, with a distinctive cover.

At 1:30 p.m., the Committee adjourned to the call of the Chair.

Marc Toupin
Clerk of the Committee